92-2271

A	BANKWORCESTER CORP	10Q	06-30-92
B	BOL BANCSHARES INC	10Q	03-31-92
C	CAERE CORP	10Q	03-31-92
D	DRIVEFONE INC	10Q	03-31-92
E	EQUITABLE BANKSHARES OF COLORADO INC	10Q	03-31-92
F	GALLERY RODEO INTERNATIONAL INC	10Q	03-31-92
G	GARDEN STATE BANCSHARES INC	10Q	03-31-92
H	LM CAPITAL INC	10Q	03-31-92
I	MULTI SOLUTIONS INC	10Q	04-30-92
J	NATIONAL AFFILIATED CORP	10Q	03-31-92
K	NELLCOR INC	10Q	04-05-92
L	PIEDMONT MANAGEMENT CO INC	10Q	03-31-92
M	RALLY'S INC	10Q	04-05-92
N	SPORTING LIFE INC	10Q	01-31-92
O	TAL-CAP INC	10Q	04-30-92
P	TERMINAL APPLICATIONS GROUP INC	10Q	04-30-92
Q	TEXAS UTILITIES ELECTRIC CO	10Q	06-30-92
R	UNITOG CO	10Q	04-26-92
S	UNSI CORP	10Q	03-31-92
T	VARITRONIC SYSTEMS INC	10Q	04-30-92

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the period ended 6/30/92

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission file number 0-16437

BANKWORCESTER CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

04-2957564
(I.R.S. Employer Identification No.)

365 Main Street, Worcester, MA
(Address of principal executive offices)

01608
(Zip Code)

Registrant's telephone number, including area code: 508-831-4000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

6,609,600 shares of the registrant's common stock were outstanding on June 30, 1992.

BankWorcester Corporation and Subsidiary

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Part I. Item 1.

BankWorcester Corporation and Subsidiary
Consolidated Balance Sheets
(Unaudited)

	June 30, 1992	December 31, 1991	June 30, 1991
		(In Thousands)	
Assets			
Cash and due from banks	$34,873	$37,486	$32,429
Federal funds sold	94,000	107,500	104,000
Interest bearing deposits in other banks	3,462	125	51
Total cash and cash equivalents	132,335	145,111	136,480
Investment securities – market value $186,734,000, $152,967,000 and $92,004,000	185,968	150,255	91,797
Mortgage-backed securities – market value $67,515,000, $59,409,000 and $30,687,000	67,142	56,709	30,581
Loans, less allowance for possible loan losses of $17,074,000, $23,044,000 and $24,274,000	987,086	999,132	988,486
Land, buildings and equipment, net	16,461	14,109	13,192
Real estate acquired through foreclosure or substantively repossessed	20,107	16,925	13,492
Accrued income receivable	10,152	10,879	9,725
Costs in excess of net assets acquired	9,337	9,688	7,205
Prepaid expenses and other assets	18,152	11,699	12,045
	$1,446,740	$1,414,507	$1,303,003
Liabilities and Stockholders' Equity			
Deposits:			
Non-interest bearing accounts	$58,891	$67,205	$42,466
NOW	187,850	177,601	184,275
Savings	222,430	221,628	182,948
Money market	310,136	264,331	239,317
Time	479,137	539,626	513,980
Total deposits	1,258,444	1,270,391	1,162,986
Borrowed funds	42,377	18,551	21,453
Accrued and deferred income taxes	3,846	1,466	1,498
Other liabilities	10,708	6,599	3,984
Total liabilities	1,315,375	1,297,007	1,189,921
Commitments and contingencies	–	–	–
Stockholders' equity:			
Serial preferred stock – par value $0.10 per share; authorized 30,000,000 shares; none issued	–	–	–
Common stock – par value $0.10 per share; authorized 60,000,000 shares, issued 8,160,000 shares	816	816	816
Additional paid-in capital	96,463	96,463	96,463
Retained earnings	58,422	44,720	40,466
	155,701	141,999	137,745
Cost of common stock in treasury – 1,550,000 shares	(23,926)	(23,926)	(23,926)
Unearned compensation – ESOP	(410)	(573)	(737)
Total stockholders' equity	131,365	117,500	113,082
	$1,446,740	$1,414,507	$1,303,003

See accompanying notes to consolidated financial statements.

BankWorcester Corporation and Subsidiary
Consolidated Statements of Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	1992	1991	1992	1991
	(In Thousands Except per Share Data) (Unaudited)			
Interest and dividend income:				
Loans	$20,484	$24,316	$42,128	$48,760
Investment securities	2,820	1,066	5,236	1,664
Federal funds sold and short-term investments	840	1,378	1,711	3,735
Mortgage-backed securities	1,276	553	2,697	730
Dividends on stocks	136	169	267	317
Total interest and dividend income	25,556	27,484	52,039	55,226
Interest expense:				
Deposits	12,631	16,460	26,000	34,230
Borrowed funds	409	241	817	640
Total interest expense	13,040	16,701	26,817	34,870
Net interest and dividend income	12,516	10,783	25,222	20,356
Provision for possible loan losses	1,000	2,000	2,000	4,000
Net interest and dividend income after provision for possible loan losses	11,516	8,783	23,222	16,356
Non-interest income:				
Loan servicing and other fees	443	376	942	738
Deposit account servicing fees	1,213	972	2,215	1,614
Gain from sales of investments	85	11	89	506
Gain from sales of other assets	560	53	907	166
Other	505	423	1,038	842
Total non-interest income	2,806	1,835	5,191	3,866
Non-interest expenses:				
Salaries and employee benefits	5,121	4,344	10,422	8,878
Building and equipment	1,575	1,434	3,207	2,937
Write-down of real estate acquired through foreclosure	338	168	564	241
Asset collection, holding and dispostion costs	1,399	989	2,301	1,876
Other	2,545	2,517	5,013	4,706
Total non-interest expenses	10,978	9,452	21,507	18,638
Income before income taxes, extraordinary item and cumulative effect of change in accounting principle	3,344	1,166	6,906	1,584
Income tax expense	1,256	400	2,919	513
Income before extraordinary item and cumulative effect of change in accounting principle	2,088	766	3,987	1,071
Extraordinary item - Savings Bank Life Insurance Company, distribution of stock less applicable income taxes of $713,000	-	-	972	-
Cumulative effect of change in accounting principle	-	-	9,139	-
Net income	$2,088	$766	$14,098	$1,071
Weighted average shares outstanding	6,610	6,610	6,610	6,610
Earnings per common share:				
Income before extraordinary item and cumulative effect of change in accounting principle	$0.32	$0.12	$0.60	$0.16
Extraordinary item	-	-	0.15	-
Cumulative effect of change in accounting principle	-	-	1.38	-
Net income	$0.32	$0.12	$2.13	$0.16
Cash dividend declared per share	$0.03	$ -	$0.06	$ -

See accompanying notes to consolidated financial statements.

BankWorcester Corporation and Subsidiary
Consolidated Statements Of Changes in Stockholders' Equity
(Unaudited)

(In Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned Compensation ESOP	Total Stockholders' Equity
Balance, December 31, 1990	$816	$96,463	$39,395	($23,926)	($901)	$111,847
ESOP contribution	–	–	–	–	164	164
Net income	–	–	1,071	–	–	1,071
Balance, June 30, 1991	$816	$96,463	$40,466	($23,926)	($737)	$113,082
Balance, December 31, 1991	$816	$96,463	$44,720	($23,926)	($573)	$117,500
Cash dividends declared, $0.06 per share	–	–	(396)	–	–	(396)
ESOP contribution	–	–	–	–	163	163
Net income	–	–	14,098	–	–	14,098
Balance, June 30, 1992	$816	$96,463	$58,422	($23,926)	($410)	$131,365

See accompanying notes to consolidated financial statements.

BankWorcester Corporation and Subsidiary
Consolidated Statements of Cash Flows

	Six Months Ended June 30,	
	1992	1991
	(In Thousands) (Unaudited)	
Cash provided by operating activities:		
Net income	$14,098	$1,071
Adjustments to reconcile net income to net cash provided by operating activities:		
Receipt of Savings Bank Life Insurance stock dividend	(1,685)	–
Provision for possible loan losses	2,000	4,000
Depreciation and amortization of premises and equipment	1,102	905
Amortization of discounts and premiums	1,181	149
Deferred income taxes	(10,411)	572
Gain from sales of investments	(89)	(506)
Gain from sales of other assets	(907)	(166)
Write–down of real estate acquired through foreclosure	564	241
Net (increase) decrease in accrued income receivable	727	(186)
Amortization of costs in excess of net assets acquired	351	260
Net increase in prepaid expenses and other assets	2,686	738
Net increase in accrued income taxes	3,652	898
Net increase (decrease) in other liabilities	4,109	(2,044)
Other, net	170	(218)
Net cash provided by operating activities	17,548	5,714
Cash flows from investing activities:		
Purchases of investment securities	(70,558)	(84,340)
Proceeds from sales of investment securities	2,273	1,500
Maturities of invesment securities	33,878	26,645
Purchases of mortgage–backed securities	(15,112)	(28,314)
Principal payments on mortgage–backed securities	4,401	293
Loans sold	54,339	2,535
Loans purchased	(14,000)	–
Net increase in loans	(40,729)	(953)
Purchase of land, buildings and equipment	(3,454)	(2,466)
Proceeds from sales of other real estate owned	7,155	389
Net cash used in investing activities	(41,807)	(84,711)
Cash flows from financing activities:		
Net increase (decrease) in deposits	(11,947)	21,721
Net increase in short–term borrowed funds	23,989	8,737
Payments on Federal Home Loan Bank advances	–	(15,000)
ESOP loan payments	(163)	(164)
Cash dividends declared on common stock	(396)	–
Net cash provided by financing activities	11,483	15,294
Net decrease in cash and cash equivalents	(12,776)	(63,703)
Cash and cash equivalents at beginning of period	145,111	200,183
Cash and cash equivalents at end of period	$132,335	$136,480
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period:		
Interest on deposits and borrowed funds	$28,551	$35,368
Income taxes	(2,888)	(957)
Non–cash transactions:		
Real estate acquired through foreclosure or substantively repossessed	$10,255	$4,311

See accompanying notes to consolidated financial statements.

BankWorcester Corporation and Subsidiary

Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair statement of the results for the interim periods presented of BankWorcester Corporation ("BankWorcester" or the "Corporation") and its subsidiary, Worcester County Institution for Savings ("the Bank"). The results of operations for the interim periods ended June 30, 1992, are not necessarily indicative of the results for the entire year. It is suggested that these statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Corporation's Annual Report on Form 10-K.

2. Commitments and Contingencies

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to originate loans and standby letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Management does not anticipate any material losses as a result of these transactions and no specific reserves have been established. There are no financial instruments with off-balance sheet risk at June 30, 1992, which relate to customers with non-accrual, past due or restructured loans.

Financial instruments with off-balance sheet risk at June 30, 1992 are as follows:

Financial instruments whose contract amounts represent credit risk:	Contract Amount (In Thousands)
Commitments to originate loans	$ 26,196
Standby letters of credit	9,818
Unused lines of credit	124,757
Unadvanced portions of construction loans	2,807

3. Reclassification

Certain amounts in the 1991 financial statements have been reclassified to conform to the 1992 presentation without effect on stockholders' equity or net income.

4. Extraordinary Item - Savings Bank Life Insurance Company Distribution of Stock

The Savings Bank Life Insurance (SBLI) system was merged into a newly-formed Massachusetts life insurance company at the end of 1991. In connection with this reorganization, in the first quarter of 1992 BankWorcester received stock valued at $1.7 million on which applicable taxes of $713,000 have been provided. This distribution increased first quarter and six month net income by $972,000 or $0.15 per common share.

5. Income Taxes

In the first quarter of 1992, BankWorcester adopted Financial Accounting Standards Board Statement 109, "Accounting for Income Taxes," which changed the Company's method of accounting for income taxes from the deferred method required under Accounting Principles Board Opinion 11 to the asset and liability method. Under the deferred method, annual income tax expense is matched with pre-tax accounting income by providing deferred taxes at current tax rates for timing differences between the determination of net income for financial reporting and tax purposes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. In the first quarter of 1992, the cumulative effect of this change in accounting principle resulted in a $9.1 million increase in equity.

The components of income tax expense (benefits) for the periods indicated follow:

		Three Months Ended		Six Months Ended
		March 31, 1992	June 30, 1992	June 30, 1992
		(Dollars in thousands)		
Current	Federal	$ 161	$ (140)	$ 21
	State	96	101	197
	Total	257	(39)	218
Deferred	Federal	990	910	1,900
	State	416	385	801
	Total	1,406	1,295	2,701
Total book expense before extraordinary items		1,663	1,256	2,919
Extraordinary item - SBLI Stock		713	-0-	713
Change in accounting method		(9,139)	-0-	(9,139)
Total income tax expense (benefit)		$(6,763)	$1,256	$(5,507)

The difference between income tax expense computed by applying the statutory Federal income tax rate of 34% to income before income tax expense and the reported income tax expense (benefit) for the first and second quarters and six month period follows:

Expected tax rate	34.0%	34.0%	34.0%
Increase resulting from			
State income taxes, net of Federal benefit	9.5	9.6	9.5
Other	3.2	(6.0)	(1.2)
Effective income tax rate	46.7%	37.6%	42.3%

At March 31, 1992 and June 30, 1992, the Bank had gross deferred tax assets and gross deferred tax liabilities as follows:

	March 31, 1992	June 30, 1992
	(In thousands)	
Deferred tax asset:		
Allowance for loan losses	$8,506	$7,219
Deferred interest	118	114
Valuation adjustment of real estate owned	299	296
Other	71	138
Gross deferred asset	8,994	7,767
Valuation reserve	(78)	(78)
Net deferred tax asset	8,916	7,689
Deferred tax liablility:		
Core deposit amortization	1,563	1,637
Depreciation	892	886
SBLI stock distribution	713	713
Gross deferred liability	3,168	3,236
Net deferred tax asset	$5,748	$4,453

Deferred income taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences for the first and second quarters and six month period, and the tax effects of each are as follows:

	Three Months Ended		Six Months Ended
	March 31, 1992	June 30, 1992	June 30, 1992
Deferred interest expense	$ 59	$ 4	$ 63
Core deposit amortization	74	74	148
Valuation adjustment in retained earnings	6	2	8
Depreciation	(4)	(6)	(10)
Bad debts	1,236	1,288	2,524
Other	34	(67)	(33)
	1,405	1,295	2,700
Extrordinary item - SBLI stock distribution	713	-0-	713
Total deferred taxes	$ 2,118	$ 1,295	$ 3,413

6. Shareholder Rights Agreement

On June 23, 1992, the Board of Directors of BankWorcester Corporation (the "Company") declared a dividend distribution of one Preferred Stock Purchase Right (a "Right") for each outstanding share of Common Stock of the Company (the "Common Stock") to stockholders of record as of the close of business on July 6, 1992 (the "Record Date"). Each Right entitles the registered holder to purchase from the Company a unit consisting of one one-hundredth of a share (a "Unit") of Series A Junior Participating Cumulative Preferred Stock, par value $0.10 per share (the "Preferred Stock"), at a cash exercise price of $50.00 per Unit (the "Exercise Price"), subject to adjustment. The description and terms of the Rights are set forth in a Shareholder Rights Agreement between the Company and the Bank of New York, as Rights Agent (the "Rights Agreement"). A copy of the Shareholder Rights Agreement has been filed with the Securities and Exchange Commission as an Exhibit to a Current Report on Form 8-K dated June 23, 1992.

Item 2.
Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

Net income for the second quarter ended June 30, 1992, increased to $2.1 million or $0.32 per share of common stock from $766,000 or $0.12 per share for the same quarter last year. Non-performing assets declined for a fifth consecutive quarter, totaling $44.9 million versus $56.8 million at the end of the 1992 first quarter and $72.8 million at the end of the second quarter last year.

The increase in 1992 second quarter net income was due to higher net interest and dividend income and a lower provision for possible loan losses compared to last year's corresponding period. The 1992 second quarter provision for possible loan losses totaled $1.0 million; it was $2.0 million in last year's corresponding period. Net charge-offs for the 1992 second quarter were $4.0 million compared to $4.3 million in the second quarter of last year. After the provision and net charge-offs, the loan loss allowance totaled $17.1 million or 115.2% of non-performing loans compared to $24.3 million or 63.5% on June 30, 1991. The weighted average interest rate spread for the quarter grew to 3.30% from 3.05% in the same period last year, primarily because of faster repricing of interest-bearing liabilities than earning assets in a declining interest rate environment. For the same reason, the net yield on average earning assets also increased and was 3.68% compared to 3.59% for the second quarter of 1991. The continued use of deposit funds gained in the fourth quarter acquisition of the former Merchants National Bank increased investment income, and this contributed to the expansion of the net yield on average earning assets.

At the end of June 1992, management estimated that there were approximately $7.6 million of potential problem loans, defined as currently performing loans about which management has serious doubts about the ability of the borrowers to comply with all of their present loan repayment terms. This is lower than the estimate of $7.9 million in the second quarter of 1991 but higher than the $6.0 million estimate at the end of the 1992 first quarter. The increase in the second quarter estimate is primarily due to greater risk associated with several commercial real estate loans, where properties have had increased vacancies. Most potential problem loans continue to relate to commercial real estate. The ultimate status or resolution of these loans is not yet known and will depend in part upon changes in the economy and real estate market.

Because of weak business conditions, there can be no assurance that non-performing assets will not increase or that declines in collateral values will not necessitate additional write-downs, additional provisions for possible loan losses or charge-offs in the future.

Results of Operations for the Three Month Period Ended June 30, 1992, Compared to the Corresponding Period in 1991.

Net Income/Loss

BankWorcester's net income for the second quarter of 1992 was $2.1 million or $0.32 per common share compared to net income of $766,000 or $0.12 per share for the same quarter in 1991.

Net Interest and Dividend Income

Net interest and dividend income in the second quarter increased to $12.5 million from $10.8 million in the same quarter last year, because of the effect of the acquisition of $162.2 million of deposits and selected loans of two failed banks since last year's corresponding quarter, and the use of the deposit funds since then. Average interest-bearing liabilities of $1.2 billion also repriced more quickly than average earning assets of $1.4 billion in a declining market interest rate environment,_ contributing much to the increase in net interest and dividend income. Specifically, total interest income for the 1992 quarter declined slightly to $25.6 million from $27.5 million in the 1991 second quarter, while total interest expense in the 1992 quarter declined more substantially, totaling $13.0 million compared to $16.7 million in last year's corresponding quarter.

Both average earning assets and interest-bearing liabilities grew year over year because of the use of acquired deposits and selected assets of failed banks since last year's second quarter. Primarily because of the assets gained from these failed bank acquisitions, the net yield on average earning assets grew to 3.68% from 3.59% in the second quarter of last year.

Because of all the factors mentioned above, the weighted average interest rate spread in the 1992 second quarter expanded to 3.30% from 3.05% in the same period last year.

Provision for Possible Loan Losses

Management provided $1.0 million for possible loan losses in the 1992 second quarter compared to $2.0 million for the same period in 1991. Management considers many factors in determining what amount to provide for possible loan losses; among these are the size and risk characteristics of loans, charge-off experience, loan delinquency rates, the value of collateral securing loans, future loss potential, and economic and market conditions, all of which can change frequently.

Net charge-offs of $4.0 million in the 1992 second quarter were less than $4.3 million for the same quarter last year. Non-performing loans declined to $14.8 million on June 30, 1992, from $38.2 million on the same date last year. Restructured loans totaled $9.9 million at the end of the 1992 second quarter compared to $21.1 million on the same date last year. Real estate acquired through foreclosure or substantively repossessed increased to $20.1 million on June 30, 1992, compared to $13.5 million on the same date last year (see "Asset Quality").

Non-Interest Income

Non-interest income rose to $2.8 million from $1.8 million in the second quarter of last year. Loan servicing and other fees increased to $443,000 in the 1992 quarter from $376,000 in the corresponding 1991 quarter. Deposit account servicing fees increased to $1.2 million in the 1992 quarter from $972,000 in the same period in 1991. Growth of loan and deposit-related fee income in 1992 was due to increases in fees charged and a higher volume of deposits. Non-interest income included a $85,000 gain on the sale of investments compared to $11,000 in the second quarter of 1991. Gains from the sales of other assets, which was primarily composed of other real estate owned, contributed $560,000 to non-interest income compared to $53,000 in the corresponding period last year.

Non-Interest Expense

Total non-interest expense was $11.0 million or 3.05% of average assets in the second quarter of 1992 versus $9.5 million or 3.00% of average assets in the corresponding quarter last year. Increases in salaries and benefits and building and equipment expense in the 1992 quarter versus the corresponding period in 1991 were primarily due to the additional cost of operating former Merchants National and ComFed locations acquired in the third and fourth quarters of 1991. Salaries and employee benefits grew to $5.1 million in the second quarter from $4.3 million in the same quarter last year, due to the larger staff and scheduled salary increases. Building and equipment expense for the 1992 quarter also increased and was $1.6 million compared to $1.4 million in the corresponding period in 1991. This increase was due to the cost of operating additional locations. During the second quarter, petitions were filed to close two limited service facilities located in Leominster and Fitchburg. These facilities were subsequently closed. The financial impact of these closing will not be material.

Write-downs of other real estate owned during the 1992 second quarter totaled $338,000 compared to $168,000 in the same period last year. Asset collection, holding and disposition costs in the quarter increased, totaling $1.4 million compared to $989,000 in the same period in 1991. Other expense was $2.5 million, virtually the same as in the second quarter of 1991. Net operating expense (total non-interest expense less non-interest income) was 2.27% of average assets versus 2.41% in the same quarter last year. Total interim expenses associated with operating Merchants National during the quarter were approximately $140,000.

Income Taxes

For the 1992 second quarter, BankWorcester's income taxes totaled $1.3 million for an effective tax rate of 37.6%, compared to $400,000 for an effective rate of 34.3% for last year's corresponding quarter.

The 1992 second quarter effective tax rate was higher because it was affected by a number of factors, including the statutory rates, the non-deductibility of the provision for possible loan losses and the amount of deductible loan charge-offs. The effects of the Financial Accounting Standards Board (FASB) Statement 109 are reflected in the June 30, 1992, quarter; Accounting Principles Board (APB) Statement 11 was applied to the June 30, 1991, quarter. (See Note 5 of Notes to Consolidated Financial Statements).

Results of Operations for the Six Month Period Ended June 30, 1992, Compared to the Corresponding Period in 1991.

Net Income

For the six months ended June 30, 1992, net income was $14.1 million or $2.13 per share compared to $1.1 million or $0.16 per share for the same period in 1991. Net income in 1992 included $9.1 million or $1.38 per share due to the cumulative effect of a change in accounting principle that resulted from the adoption of FASB Statement 109, and $972,000 or $0.15 per share recorded as an extraordinary item for the distribution of stock from the Savings Bank Life Insurance Company.

Net Interest and Dividend Income

Net interest and dividend income for the first six months of 1992 increased to $25.2 million from $20.4 million for the same period last year. This increase occured in part because of the use of funds from the fourth quarter 1991 acquisition of deposits and selected loans from two failed banks. Faster repricing of average interest-bearing liabilities than average earning assets in a period of declining market interest rates also contributed to the increase in net interest and dividend income. Total interest income for the first six months of 1992 declined to $52.0 million from $55.2 million for last year's corresponding quarter, while interest expense declined to $26.8 million from $34.9 million. Lower cost deposits gained from failed bank acquisitions also helped lower the Bank's overall liability costs. Because of these factors, the weighted average interest rate spread grew to 3.34% in 1992 from 2.79% for the same period in 1991.

Both average earning assets and average interest-bearing liabilities increased year over year, reflecting the effect of acquisitions since June, 1991. Because of the increased assets and faster repricing of deposits, the net yield on average earning assets grew to 3.73% in 1992 from 3.36% for the 1991 six month period.

Average loans of $1.0 billion for the first six months of 1992 were virtually the same as for the corresponding period last year, but the loan mix changed. Commercial loans continued to decline, while residential and consumer loans increased; average investment securities and mortgage-backed securities increased, but average short-term investments decreased.

Provision for Possible Loan Losses

For the first six months of 1992, $2.0 million was provided for possible loan losses versus $4.0 million for the same period in 1991. Non-performing loans decreased year-over-year and were $14.8 million at the end of June 1992, compared to $38.2 million at the end of June 1991. Net charge-offs for the first half of 1992 totaled $8.0 million compared to $8.9 million in last year's corresponding period. After the provisions and net charge-offs, the allowance for possible loan losses totaled $17.1 million or 115.2% of non-performing loans compared to $24.3 million or 63.5% at the end of last year's same period.

Non-Interest Income

Non-interest income was $5.2 million for the 1992 six month period compared to $3.9 million in the first half of 1991. Higher loan servicing and other fees and higher deposit account servicing fees contributed to the increase in 1992 non-interest income. Loan servicing and other fees were $942,000 in 1992 versus $738,000 in 1991, and deposit account servicing fees totaled $2.2 million compared to $1.6 million. Gains from the sales of investments of $89,000 in 1992 were less than $506,000 reported for the same period last year, but gains from the sale of assets of $907,000 were higher than $166,000 last year. Other income of $1.0 million for the first six months of 1992 was also higher than $842,000 for the corresponding period in 1991.

Non-Interest Expense

Non-interest expense was $21.5 million or 3.00% of average assets in the 1992 six month period compared to $18.6 million or 2.94% of average assets in the corresponding period last year. Higher salaries and employee benefits of $10.4 million versus $8.9 million last year were attributable to the additional operations acquired since June, 1991. Building and equipment expense rose for the same reason, totaling $3.2 million for the first six months of 1992, compared to $2.9 million for the same period last year. Write-down of real estate acquired through foreclosure increased to $564,000 from

$241,000 in 1991, reflecting movement of real estate associated with problem loans into other real estate owned. Asset collection, holding and disposition costs also increased and were $2.3 million in 1992 versus $1.9 million last year. Other expense grew to $5.0 million from $4.7 million for the first six months of 1991. Net operating expense (total non-interest expense less non-interest income) was 2.28% of average assets compared to 2.33% in the same period last year. Total interim expenses associated with operating Merchants National were approximately $700,000 for the six month period. These operations are now fully integrated into the Bank.

Income Taxes

Income taxes for the first six months of 1992 totaled $2.9 million for an effective tax rate of 42.3%, compared to $513,000 or 32.4% for the corresponding period last year.

The effective tax rate in 1991 was lower because it was affected by a number of factors, including the statutory rates, the non-deductibility of the provision for possible loan losses and the amount of deductible loan charge-offs. The effects of FASB 109 are reflected in the June 30, 1992, six month period; APB 11 was applied to the June 30, 1991, six month period.

The initial effect of adopting FASB 109 is shown as a cumulative effect of change in accounting principle and was adopted in the first quarter of 1992. The change, which resulted in a benefit of $9.1 million, created a deferred tax asset in the same amount, and primarily represents book provisions for loan losses being treated as timing differences; under APB-11, they were permanent differences. Bank regulators are conferring as to acceptance of this accounting principle and the bank is reporting to regulators as if FASB-109 had not been adopted. (See Note 5 of Notes to Consolidated Financial Statements).

Balance Sheets

Total assets on June 30, 1992, were $1.4 billion, an increase from $1.3 billion on the same date last year. This increase was due to the acquisition of deposits and selected assets of failed banks since the end of last year's corresponding period. Deposits grew to $1.3 billion on June 30, 1992, from $1.2 billion at the end of June last year. Balances of investment securities and mortgage-backed securities most reflected the increase in assets. Mortgage-backed securities totaled $67.1 million at the end of June, 1992, compared to $30.6 million at the end of June 1991. Net loans were $987.1 million, approximately the same as $988.5 million at June 30, 1991, this lack of growth was due to economic conditions and less loan demand. Investment securities at the end of June, 1992, totaled $186.0 million compared to $91.8 million on the same date last year.

Stockholders' equity on June 30, 1992, totaled $131.4 million or $19.87 per common share, an increase from $113.1 million or $17.11 per share at the end of June, 1991. Tangible book value (stockholders' equity less the costs in excess of net assets acquired) was $18.46 at June 30, 1992.

Asset Quality

BankWorcester's non-performing assets continued to decline for a fifth consecutive quarter, totaling $44.9 million, compared to $72.8 million at the end of the first half of 1991. Reasons for the decrease in non-performing assets include net charge-offs ($8.0 million for the first half of 1992), but also include liquidations, successful workouts and the emergence of fewer new non-performing assets. Restructured loans declined to $9.9 million at June 30, 1992, compared to $21.1 million on the same date last year and $22.3

million at the end of March, 1992. The reduction from March, 1992, was largely due to $6.9 million of one loan moving to real estate acquired through foreclosure and $2.0 million of that loan being charged off; a $3.6 million loan becoming performing; and principal reductions. These loans are typically restructured at below market interest rates and secured by additional collateral.

Analysis of Restructured Loans

Restructured Loans	Principal Balance	Weighted Average Old Rate	Weighted Average New Rate	Quarterly Amount of Foregone Interest
June 30, 1991	$21,105,000	10.41%	5.98%	$234,000
September 30, 1991	21,605,000	9.71	6.04	197,000
December 30, 1991	22,181,000	9.41	5.47	181,000
March 31, 1992	22,263,000	8.73	5.31	173,000
June 30, 1992	9,946,000	6.82	3.61	72,976

The components of non-performing assets, which include restructured loans, are contained in the accompanying table. The table also illustrates the trends that have occurred over the last four quarters.

Non-Accrual, Past Due and Restructured Loans and Other Real Estate Owned
(In thousands)

	June 30, 1992	March 31, 1992	December 31, 1991	September 30, 1991	June 30, 1991
Non-accrual loans	$10,181	$13,448	$16,589	$25,483	$31,972
Loans past due 90 days or more and still on accrual	4,637	5,449	6,087	6,079	6,270
Non-performing loans	14,818	18,897	22,676	31,562	38,242
Restructured loans	9,946	22,263	22,181	21,605	21,105
Real estate acquired through foreclosure and loans substantively repossessed	20,107	15,659	16,925	12,479	13,492
	$44,871	$56,819	$61,782	$65,646	$72,839

At the end of June, 1992, management estimated there were approximately $7.6 million of potential problem loans in addition to the loans contained in the table. This estimate is just slightly lower than $7.9 million at the end of the first half of 1991 but higher than the $6.0 million estimate at the end of the 1992 first quarter. The increase in the second quarter estimate is primarily due to greater risk associated with several commercial real estate loans, where properties have had increased vacancies. Most of the potential problem loans relate to commercial real estate, and while they are currently performing, management has serious doubts as to the ability of the borrowers to continue to comply with all of their present loan repayment terms. The ultimate status or resolution of these loans is not yet known and will in part depend upon changes in the economy and real estate market. A number of factors have adversely affected the Bank's customers; among these are continued depressed economic conditions and unsatisfactory vacancy rates.

BankWorcester's primary source of asset quality problems continues to be in the commercial loan portfolio, and most are commercial real estate loans and loans involving hotels and motels. Commercial construction, commercial real estate and other commercial loans accounted for 70% of non-performing loans at June 30, 1992; residential mortgages represented 25%, and the remaining 5% consisted of consumer loans.

Non-Performing Loan Analysis

	At June 30, 1992				At 6/30/92	12/31/91	6/30/91
Loan Type	Share of Total Loans Outstanding	Total Loans Outstanding	Non-performing Loans	Share of Non-performing Loans	Percent of Non-performing Loans in Type		
(Dollars in Thousands)							
Commercial Loans:							
Construction	3%	$ 30,384	$ 2,837	19%	9.3%	5.6%	11.4%
Real estate	24	234,682	5,182	35	2.2	4.9	8.9
Other	10	103,441	2,352	16	2.3	2.9	3.9
Residential loans	45	455,258	3,667	25	0.8	1.1	1.3
Consumer loans	18	180,395	780	5	0.4	0.6	0.7
Total	100%	$1,004,160	$14,818	100%	1.5%	2.2%	3.8%

Other segments of the loan portfolio have also been affected by economic and market conditions. Non-performing assets in the single family residential and consumer loan portfolios have shown marked improvement since last year's second quarter. However, if current conditions do not improvee or get worse problems in these areas of the portfolio could become more significant. The allowance for possible loan losses at the end of the 1992 first half totaled $17.1 million or $115.2% of non-performing loans compared to $24.3 million or 63.5% of non-performing loans at the same time last year. The following table analyzes changes in the allowance for possible loan losses over the last four quarters.

Analysis Of The Allowance For Possible Loan Losses

(In Thousands)	For the Three Months Ended June 30, 1992	March 31, 1992	December 31, 1991	September 30, 1991	June 30, 1991
Allowance, beginning of period	$20,120	$23,044	$22,098	$24,274	$26,611
Provision, charged to expense	1,000	1,000	2,100	2,000	2,000
	21,120	24,044	24,198	26,274	28,611
Loans charged off:					
Commercial	3,580	3,250	869	3,237	4,000
Residential	747	686	372	600	531
Consumer	241	270	247	492	348
Total charge-offs	4,568	4,206	1,488	4,329	4,879
Recoveries on loans previously charged off:					
Commercial	344	231	254	89	446
Residential	148	17	48	43	31
Consumer	30	34	32	21	65
Total recoveries	522	282	334	153	542
Net loans charged off	4,046	3,924	1,154	4,176	4,337
Allowance, end of period	17,074	$20,120	$23,044	$22,098	$24,274
Total loans	$1,004,160	$1,010,222	$1,022,176	$1,004,936	$1,012,760
Allowance as a % of:					
Total loans	1.7%	2.0%	2.3%	2.2%	2.4%
Non-performing loans	115.2%	106.5%	101.6%	70.0%	63.5%
Non-performing assets	38.1%	35.4%	37.3%	33.7%	33.3%

There can be no assurances that non-performing assets will not increase further or that declines in collateral values will not necessitate additional write-downs, increases in the allowance for possible loan losses or charge-offs in the future.

Liquidity and Capital Resources

The Corporation's only source of funds is dividends from the Bank and earnings on funds not distributed to stockholders. The primary sources of funds for the Bank include cash flows generated from operations, collections of principal payments and prepayments on outstanding loans, increases in deposits, and advances from the Federal Home Loan Bank ("FHLB") of Boston.

The Bank's liquidity increased in the first half of 1992, due to greater available funds from an increase of in cash from operations, loan payoffs, and cash from transferred deposits from the former Leominster branch of ComFed and Merchants National Bank operations. Because of reduced loan volume, most of these funds were utilized in the investment portfolio. Investment securities, including short-term investments and mortgage-backed securiities, at June 30, 1992, totaled $350.6 million compared to $226.4 million on the same date in 1991. These investments provide the Bank funds to meet any large deposit fluctuations or increased loan demand, should either occur. On June 30, 1992, the Bank had the capacity to borrow up to $139.1 million from the FHLB of Boston and, with the purchase of additional FHLB of Boston stock, had the capacity to borrow up to $434.0 million.

The Statement of Cash Flows shows a decrease in cash and cash equivalents of $12.8 million for the six months ended June 30, 1992. This was due primarily to investing activities. During the six month period, cash received from loans sold, operating activities, and financing activities was invested in loans and securities.

The Corporation is regulated by (among others) the Federal Reserve Board ("FRB"). In January 1989, the FRB adopted risk-based capital guidelines for bank holding companies. On June 30, 1992, the Corporation's risk-based total capital ratio was 14.44%, its tangible core capital (Tier 1) ratio was 13.18%, and its leverage ratio was 8.48%, all of which exceed current regulatory requirements. BankWorcester's only subsidiary, Worcester County Institution for Savings, is "well-capitalized" according to the proposed Federal Deposit Insurance Corporation definition which calls for the ratios just mentioned to be at least 10%, 6%, and 5%, respectively.

The Corporation's capital to assets ratio was 9.08% at June 30, 1992.

BankWorcester Corporation and Subsidiary

**Average Balance Sheets, Net Interest and Dividend Income,
Net Yield on Average Earning Assets**

	Three Months Ended June 30, 1992			Three Months Ended June 30, 1991		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
			(Dollars in Thousands)			
ASSETS						
Loans (1):						
Commercial	$372,298	$6,986	7.51%	$401,363	$9,178	9.15%
Residential	460,361	9,690	8.42%	452,201	10,898	9.64%
Consumer	178,906	3,808	8.51%	161,900	4,240	10.48%
Average loans, net of unearned income	1,011,565	20,484	8.10%	1,015,464	24,316	9.58%
Investment securities	186,928	2,956	6.33%	64,868	1,237	7.63%
Mortgage–backed securities	68,861	1,276	7.41%	24,556	553	9.01%
Short–term investments	92,932	840	3.62%	95,048	1,378	5.80%
Average earning assets	1,360,286	25,556	7.51%	1,199,936	27,484	9.16%
Non–earning assets:						
Allowance for possible loan losses	(20,280)			(27,232)		
Cash and due from banks	34,135			29,536		
Land, buildings and equipment, net	16,194			12,057		
Real estate acquired through foreclosure or substantively repossessed	16,162			15,241		
Other assets	34,801			32,334		
Average assets	$1,441,298			$1,261,872		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest–bearing deposits:						
NOW	$188,366	1,308	2.78%	$143,262	1,822	5.09%
Savings	217,300	1,951	3.59%	180,121	2,264	5.03%
Money market	304,604	3,283	4.31%	239,126	3,230	5.40%
Time	489,882	6,089	4.97%	513,435	9,144	7.12%
Average interest–bearing deposits	1,200,152	12,631	4.21%	1,075,944	16,460	6.12%
Borrowed funds	37,526	409	4.36%	17,784	241	5.42%
Average interest–bearing liabilities	1,237,678	13,040	4.21%	1,093,728	16,701	6.11%
Demand deposits	60,556			40,039		
Other liabilities	9,608			11,742		
Average liabilities	1,307,842			1,145,509		
Stockholders' equity	133,456			116,363		
Average liabilities and stockholders' equity	$1,441,298			$1,261,872		
Net interest and dividend income		$12,516			$10,783	
Weighted average interest rate spread			3.30%			3.05%
Net yield on average earning assets			3.68%			3.59%

(1) Loans on non–accrual are included in the average balances shown above. The variance due to rate includes the effect of less interest being earned on such loans than their contractual rates.

BankWorcester Corporation and Subsidiary
RATE-VOLUME ANALYSIS

Six Months Ended June 30	1992 Compared to 1991 Increase/(Decrease)		
		Variance due to (1)	
	Total Change	Rate	Volume
	(In Thousands)		
INCOME FROM INTEREST-EARNING ASSETS			
Loans:			
Commercial	($4,438)	($2,955)	($1,483)
Residential	(1,625)	(2,183)	558
Consumer	(589)	(1,588)	999
Total loans, net of unearned income	(6,652)	(6,726)	74
Investment securities	3,522	(469)	3,991
Mortgage-backed securities	1,967	(141)	2,108
Short-term investments	(2,024)	(1,224)	(800)
Total interest income	(3,187)	(8,560)	5,373
EXPENSE ON INTEREST-BEARING LIABILITIES			
Interest-bearing deposits:			
Now	(990)	(1,961)	971
Savings	(306)	(1,240)	934
Money market	(676)	(1,970)	1,294
Time	(6,258)	(5,501)	(757)
Total interest-bearing deposits	(8,230)	(10,672)	2,442
Borrowed funds	177	(196)	373
Total interest expense	(8,053)	(10,868)	2,815
Net interest income	$4,866	$2,308	$2,558

(1) Rate-volume variances have been allocated proportionately to rate and volume changes respectively.

BankWorcester Corporation and Subsidiary

Average Balance Sheets, Net Interest and Dividend Income, Net Yield on Average Earning Assets

	Six Months Ended June 30, 1992			Six Months Ended June 30, 1991		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
	(Dollars in Thousands)					
ASSETS						
Loans (1):						
Commercial	$371,007	$13,935	7.51%	$405,739	$18,373	9.06%
Residential	468,541	20,276	8.65%	456,663	21,901	9.59%
Consumer	181,285	7,917	8.73%	160,894	8,506	10.57%
Average loans, net of unearned income	1,020,833	42,126	8.25%	1,023,296	48,780	9.53%
Investment securities	172,730	5,503	6.37%	49,746	1,961	7.96%
Mortgage-backed securities	68,713	2,697	7.85%	15,506	730	9.42%
Short-term investments	90,924	1,711	3.76%	121,716	3,735	6.14%
Average earning assets	1,353,200	52,039	7.69%	1,210,264	55,226	9.13%
Non-earning assets:						
Allowance for possible loan losses	(21,646)			(29,376)		
Cash and due from banks	36,329			29,487		
Land, buildings and equipment, net	15,133			11,917		
Real estate acquired through foreclosure or substantively repossessed	15,282			12,618		
Other assets	33,953			34,973		
Average assets	$1,432,251			$1,269,883		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing deposits:						
NOW	$183,010	2,573	2.81%	$136,710	3,563	5.21%
Savings	221,997	4,218	3.80%	179,792	4,524	5.03%
Money market	288,517	6,097	4.23%	237,136	6,773	5.71%
Time	504,857	13,112	5.19%	526,170	19,370	7.36%
Average interest-bearing deposits	1,198,381	26,000	4.34%	1,079,808	34,230	6.34%
Borrowed funds	35,354	817	4.62%	20,605	640	6.21%
Average interest-bearing liabilities	1,233,735	26,817	4.35%	1,100,413	34,870	6.34%
Demand deposits	61,736			39,149		
Other liabilities	8,560			14,885		
Average liabilities	1,304,031			1,154,447		
Stockholders' equity	128,220			115,436		
Average liabilities and stockholders' equity	$1,432,251			$1,269,883		
Net interest and dividend income		$25,222			$20,356	
Weighted average interest rate spread			3.34%			2.79%
Net yield on average earning assets			3.73%			3.36%

(1) Loans on non-accrual are included in the average balances shown above. The variance due to rate includes the effect of less interest being earned on such loans than their contractual rates.

BankWorcester Corporation and Subsidiary
RATE-VOLUME ANALYSIS

Three Months Ended June 30

	1992 Compared to 1991 Increase/(Decrease)		
		Variance due to (1)	
	Total Change	Rate	Volume
	(In Thousands)		
INCOME FROM INTEREST-EARNING ASSETS			
Loans:			
Commercial	($2,192)	($1,562)	($630)
Residential	(1,208)	(1,402)	194
Consumer	(432)	(847)	415
Total loans, net of unearned income	(3,832)	(3,811)	(21)
Investment securities	1,719	(244)	1,963
Mortgage-backed securities	723	(114)	837
Short-term investments	(538)	(508)	(30)
Total interest income	(1,928)	(4,677)	2,749
EXPENSE ON INTEREST-BEARING LIABILITIES			
Interest-bearing deposits:			
Now	(514)	(981)	467
Savings	(313)	(723)	410
Money market	53	(729)	782
Time	(3,055)	(2,652)	(403)
Total interest-bearing deposits	(3,829)	(5,085)	1,256
Borrowed funds	168	(56)	224
Total interest expense	(3,661)	(5,141)	1,480
Net interest income	$1,733	$464	$1,269

(1) Rate-volume variances have been allocated proportionately to rate and volume changes respectively.

Part II. Other Information

Item 1. Legal Proceedings. Not applicable.

Item 2. Changes in Securities. Not applicable.

Item 3. Defaults upon Senior Securities. Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders. Not applicable.

Item 5. Other Information. Not applicable.

Item 6. Exhibits and Reports on Form 8-K.

(a) No exhibits are required to be filed with this report.

(b) A copy of a Shareholder Rights Agreement has been filed as an Exhibit to a current report on Form 8-K dated June 23, 1992.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BankWorcester Corporation
(Registrant)

Date August 13, 1992

Harold Cabot
President and
Chief Executive Officer

Date 13 Aug 92

Anthony J. Keller
Executive Vice President and
Treasurer

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FORM 10–Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

March 31, 1992
Quarter Ending

0-16934
Commision File Number

BOL BANCSHARES, INC
Name of Registrant

Louisiana
State of Incorporation

72-1121561
I R S Employer ID Number

(504) 889-9400
Telephone Number

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Q-Data Corp. - St. Petersburg, FL

L34

300 St. Charles Ave
New Orleans, La 70130
Address of Principal Office

1988
tablished

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x **No** ______

The total number of shares of stock outstanding as of March 31, 1992 were 180,629 shares of Common stock and 2,326,788 shares of Preferred stock

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BOL BANCSHARES, INC. & SUBSIDIARY
STATEMENT OF CONDITION
CONSOLIDATED

ASSETS

	March 31, 1992	March 31, 1991	Dec 1991
Cash and Due from Banks			
Non-Interest Bearing Balances and Cash	$7,217,497	$6,896,023	$6,747,809
Interest Bearing Balances	15,000	10,000	15,000
Securities	5,104,105	8,235,097	10,034,266
Federal Funds Sold	13,600,000	11,100,000	6,425,000
Loans -- Less allowance for Loan Losses of $964,757-1992 & $964,357-1991	68,992,069	69,241,247	72,936,138
Property, Equipment and Leasehold Improvements (Net of Depreciation and Amortization)	2,282,460	1,831,865	2,255,735
Other Real Estate Owned	3,972,840	3,952,695	4,437,106
Investment in Subsidiary	1,205,600	987,873	1,205,600
Other Assets	1,528,113	1,313,091	1,154,815
Goodwill	0	0	0
Total Assets	$103,917,684	$103,567,896	$105,211,469

LIABILITIES & STOCKHOLDERS' EQUITY

	March 31, 1992	March 31, 1991	Dec 1991
LIABILITIES:			
Deposits			
Non-Interest Bearing	$26,021,957	$24,533,510	$26,334,451
Interest Bearing	69,269,053	70,655,058	69,948,141
Other Borrowed Money	49,526	49,526	49,526
Deferred Taxes	111,655	111,655	111,655
Notes Payable	562,416	3,944,244	539,463
Senior Secured Debentures	1,933,000	0	1,933,000
Deferred Gain on Sale of Bldg.	100,884	151,326	151,326
Other Liabilities	902,246	2,246,412	1,440,471
Total Liabilities	98,950,737	101,691,731	100,508,033
STOCKHOLDERS' EQUITY			
Common Stock	180,629	180,629	180,629
Preferred Stock	2,326,788	2,326,788	2,326,788
Surplus	0	0	0
Undivided Profits	2,196,019	(910,569)	(910,569)
Dividends Paid-Preferred	0	0	0
Excess Purch Price Acq	0	0	0
Current Earnings	263,511	279,317	3,106,588
TOTAL STOCKHOLDERS EQUITY	4,966,947	1,876,165	4,703,436
Total Liabilities and Capital	$103,917,684	$103,567,896	$105,211,469

BOL BANCSHARES, INC. & SUBSIDIARY
STATEMENT OF INCOME
CONSOLIDATED

	March 1992	March 1991
INTEREST INCOME		
Interest & Fees on Loans		
Real Estate Loans	$442,630	$471,048
Commercial Loans	147,810	201,878
Installment Loans	151,360	182,506
Credit Card and Related Plans	2,151,007	2,078,260
Interest on Time Deposits	196	654
Interest on Investment Securities		
Securities Issued by State and Political Subdivisions of the U.S.	0	0
All Other Securities	69,839	127,450
Interest on Federal Funds Sold	132,026	123,526
Total Interest Income	3,094,868	3,185,322
INTEREST EXPENSE		
Interest on Time Deposits of $100,000 or More	70,776	176,956
Interest on Other Deposits	678,104	907,044
Interest on Federal Funds Purchased	0	0
Other Interest Expense	669	1,335
Interest Expense on Notes Payable	15,683	125,447
Interest Expense on Debentures	54,170	0
Total Interest Expense	819,402	1,210,782
NET INTEREST INCOME	2,275,466	1,974,540
Provision for Loan Losses	195,000	195,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,080,466	1,779,540
OTHER INCOME		
Service Charge on Deposit Accounts	417,571	379,470
Other Non-Interest Income - Schedule I	362,713	530,143
Total Other Income	780,284	909,613
OTHER EXPENSE		
Salaries and Employee Benefits	1,123,310	983,112
Occupancy Expense	457,856	449,788
Other Non-Interest Expenses - Schedule II	1,080,288	976,636
Total Other Expenses	2,661,454	2,409,536
Income Before Tax Provision	199,296	279,617
Provision For Taxes	(64,215)	300
Total Net Income	263,511	279,317
Earnings Per Share of Common Stock	$1.46	$1.55

BOL BANCSHARES, INC. & SUBSIDIARY CONSOLIDATED
STATEMENT OF CASH FLOWS
FOR QUARTER ENDED MARCH 31, 1992 and 1991

	1992	1991
OPERATING ACTIVITIES		
Net Income (Loss)	$263,511	$279,317
Adjustments to Reconcile Net Income (Loss) to Net Cash		
Provided by (Used in) Operating Activities:		
Provision for Loan Losses	195,000	195,000
Depreciation and Amortization Expense	59,872	67,527
Amortization of Investment Security Premiums	0	4,010
Accretion of Investment Security Premiums	(64,231)	(1,435)
(Gain) Loss on Sale of Property and Equipment	0	0
(Gain) Loss on Sale of Other Real Estate	(18,258)	(4,711)
Decrease (Increase) in Other Assets	(69,540)	111,404
(Decrease) Increase in Other Liabilities and Accrued Interest	(565,714)	(110,983)
(Decrease) Increase in Unearned Interest	(53,528)	(79,186)
Net Cash Provided by (Used in) Operating Activities	(252,888)	460,943
INVESTING ACTIVITIES		
Proceeds from Investment Securities Released At Maturity	4,994,392	500,000
Proceeds from Sale of Investment Securities	0	0
Purchases of Investment Securities	0	(2,250,000)
Proceeds from Sale of Property and Equipment	555	15
Purchases of Property and Equipment	(87,152)	(864)
Proceeds from Sale of Other Real Estate	211,000	79,678
Additions to Other Real Estate	(32,234)	(527,839)
Retirement of Goodwill	0	0
Net Increase in Credit Card Receivables and Overdrafts	4,681,929	4,992,237
Loans Originated	(3,905,424)	(2,531,720)
Principal Collected on Loans	3,026,092	4,178,231
Net Cash Provided in Investing Activities	8,889,158	4,439,738
FINANCING ACTIVITIES		
Net Increase (Decrease) in Demand Deposits, Interest Bearing Deposits, and Savings Accounts	1,868,363	174,125
Proceeds from Sale of Certificates of Deposits	599,408	2,886,895
Payments for Maturing of Certificates of Deposits	(3,459,353)	(2,511,343)
Cash Dividends	0	0
Cancellation of Stock and Adjustments	0	0
	(991,582)	549,677
Net Increase (Decrease) in Cash and Cash Equivalents	7,644,688	5,450,356
Cash and Cash Equivalents at Beginning of Year	13,187,809	12,555,670
Cash and Cash Equivalents at March 31	$20,832,497	$18,006,028

BOL BANCSHARES, INC. & SUBSIDIARY CONSOLIDATED
STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

	COMMON STOCK	PREFERRED STOCK	SURPLUS	UNDIVIDED PROFITS	TOTAL
Balance December 31, 1988	181,376	2,320,265	0	469,676	2,971,317
Adjust Debt Assump. Stock	(729)	7,449	0	0	6,720
Cancellation of Stock	(18)	(926)	0	0	(944)
Net Income March 31, 1989			0	59,098	59,098
Balance - March 31, 1989	**180,629**	**2,326,788**	**0**	**528,774**	**3,036,191**
Balance December 31, 1989	180,629	2,326,788	0	(1,419,025)	1,088,392
Net Income March 31, 1990				84,641	84,641
Balance - March 31, 1990	**180,629**	**2,326,788**	**0**	**(1,334,384)**	**1,173,033**
Balance December 31, 1990	180,629	2,326,788	0	(910,569)	1,596,848
Net Income March 31, 1991				279,317	279,317
Balance - March 31, 1991	**180,629**	**2,326,788**	**0**	**(631,252)**	**1,876,165**
Balance December 31, 1991	180,629	2,326,788	0	2,196,019	4,703,436
Net Income March 31, 1992				263,511	263,511
Balance - March 31, 1992	**180,629**	**2,326,788**	**0**	**2,459,530**	**4,966,947**

BOL BANCSHARES, INC.
BALANCE SHEETS
UNCONSOLIDATED

	March 31,	
ASSETS		
CURRENT	1992	1991
Cash	$12,404	$52,652
Time Deposits	0	0
Total	12,404	52,652
OTHER		
Loan to Subsidiary	97,236	0
Investments	7,262,396	6,977,182
Debenture Cost Amortization	162,705	0
Other Assets	15,000	0
Total Other Assets	7,537,337	6,977,182
Total Assets	7,549,741	7,029,834
LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accrued Interest	$87,360	$924,456
Accrued Expenses	19	19
Notes Payable	463,369	0
Senior Secured Debentures	1,933,000	0
Stock Issuance Pending	0	284,950
Total Current Liabilities	2,483,748	1,209,425
LONG TERM LIABILITIES		
Notes Payable	99,046	3,944,244
Total L-T Liabilities	99,046	3,944,244
Total Liabilities	2,582,794	5,153,669
STOCKHOLDERS EQUITY		
Common Stock-Authorized 1,000,000 Shares of $1 Par Value;Issued & Outstanding, 180,629 Shares	180,629	180,629
Preferred Stock-Authorized $3,000,000 Shares of $1.00 Par Value;Issued & Outstanding, 2,326,788	2,326,788	2,326,788
Surplus	0	0
Retained Earnings	2,196,019	(910,569)
Excess Purch Price of Acq	0	0
Current Earnings	263,511	279,317
Dividends Paid - Preferred	0	0
Total Stockholders' Equity	4,966,947	1,876,165
Total Liabilities & Equity	$7,549,741	$7,029,834

BOL BANCSHARES, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS
UNCONSOLIDATED

	March 31,	
INCOME	1992	1991
Interest Income	$2,828	$4,076
Dividends	0	0
Gain on Extinguishment of Debt	0	0
Equity in Undistributed earning	280,538	423,998
Total Income	$283,366	$428,074
EXPENSES		
Accrued Interest Expense	68,682	124,614
Goodwill Amortization	0	0
Organization Amort	0	0
Other Expenses	15,388	23,843
Total Expense	84,070	148,457
INCOME/LOSS BEFORE INCOME TAXES	199,296	279,617
Less Applicable Taxes	(64,215)	300
NET INCOME/LOSS AFTER TAXES	$263,511	$279,317

MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF BOL BANCSHARES, INC. AND SUBSIDIARY

The following discussion and analysis presents the more significant factors affecting the financial condition at March 31, 1992 and results of operations for the periods ending March 31, 1991 and 1990. This discussion and analysis should be read in conjunction with the consolidated financial statements, notes thereto and other financial information appearing elsewhere in this report.

Liquidity

Liquidity and capital resources are discussed weekly by the management committee, the assets and liability committee and at each executive committee meeting of the Bank's officers. Bank of Louisiana has no long term debt and maintains adequate capital to meet its needs in the foreseeable future.

Federal Funds sold are used primarily for liquidity. The bank had Federal Funds sold of $13,600,000 for the quarter ended March 31, 1992, which was a 111.67% increase over fourth quarter 1991. Federal Funds for the quarter ended March 31, 1991 totaled $11,100,000. The increase in Federal Funds sold from 1991 to 1992 is attributable to a decrease in loans.

The Bank's investment securities portfolio, in addition to the earnings it generates, supplies needed liquidity. As of March 31, 1991, the Bank had $4,894,219 or 100.00% of the portfolio maturing in three months or less.

The liquidity ratio for the Bank was 28.72% at March 31, 1992, as compared to 24.62% at December 31, 1991.

The Bank's policy is to manage its liquidity through normal operations, so that there is no need to make unplanned sales of assets or to borrow funds under adverse conditions. This policy not withstanding, the Bank has also established other potential sources of funds. Management has no knowledge of any trends, events or uncertainties that would have a material effect on liquidity.

Capital Adequacy

The FDIC's regulations require that a state-chartered bank, such as the Bank of Louisiana maintain a minimum primary capital ratio of 5.5% and a total capital ratio of 6.0%. The Bank, however, is required to maintain a primary capital ratio of 7.50% as part of the Order. See "Supervision and Regulation - Enforcement Action," as reported on Form 10-K dated December 31, 1990. The Bank's "primary capital ratio" is the sum of shareholders' equity plus the allowance for possible loan losses divided by total assets plus the allowance for possible loan losses. The Bank's primary capital ratio was 7.65% on December 31, 1991, as compared to 7.88% on March 31, 1992.

The Cease & Desist Order originally stated that by 5-15-90, the bank was to increase its primary capital by $2,550,000 or attain the ratio of 7.50% primary capital to asset ratio. However since that time the FDIC has accepted BOL's Capital Plan which reflected that by December 31, 1990 the Bank of Louisiana's primary capital to asset ratio would be approximately 7.35%. It is management's opinion that the loan loss experience of BOL, which has caused a decrease in earnings, has been effected by the depressed economic conditions of Louisiana, especially real estate. However after careful evaluation of the loan portfolio, taking into account all known problem loans, past loan loss experience, delinquency ratios and current and projected economic conditions improving, management believes that earnings will improve significantly.

The Company was the obligor on a promissory note held by the FDIC in the principal amount of $4,144,106. The FDIC acquired the Note when it closed Capital Bank and Trust Company, Baton Rouge, Louisiana. The Note was secured by a pledge of all the outstanding shares of Bank Stock. The Company, BOL Bancshares, Inc. became delinquent in the payment of principal and interest on the note as of December 31, 1990 and 1989. The amount of principal due was $50,000 in 1990 and past due interest was $844,842 in 1990 and $330,722 in 1989. Historically the bank subsidiary had upstreamed sufficient dividends to provide funds for this debt service. However, in 1989 the bank subsidiary did not have sufficient income to pay the dividends and was not allowed to pay dividends due to the stipulation in the Cease & Desist Order with regards to meeting the 7.50% primary capital to asset ratio. Management proceeded to enter into negotiations with the FDIC to restructure this debt. Consequently, on January 4, 1991, the Company entered into a Forebearance Agreement with the FDIC pursuant to which the Company paid the FDIC $210,210 and the FDIC agreed to suspend collection efforts on the Note if the Company would pay an aggregate of $2,090,000 on or before July 1, 1991. The $2,090,000 was payable in five monthly installments of $15,000 commencing February 1, 1991, with a final payment of $2,015,000 due July 1, 1991. However the Company may at any time prior to July 1, 1991, make a payment of $2,000,000 and forego the remaining $15,000 installments or ratable portions thereof.

The Company, BOL Bancshares, Inc., offered Senior Secured Debentures to obtain the $2,000,000.00 in principal needed to satisfy the terms of the Forebearance Agreement. The $15,000.00 due in monthly installments, which commenced February 1991, was obtained through advancements made by the Directors and Officers of the Bank. On March 20, 1990 a resolution was passed by the Board, whereby 100% of all Directors' fees and 10% of the salary of each officer of the Bank with the title of at least Vice President, would be advanced to BOL Bancshares, Inc. to service the interest portion. The terms of the Forebearance agreement were satisfied on July 2, 1991, and resulted in an extraordinary gain on forgiveness of debt of $2,666,527, net of income taxes of $906,619, amounting to $1,759,908.

Income tax expense in 1991 contains a charge in lieu of federal income taxes that would have been required to be paid had the company not been able to utilize an operating loss carry-forward. The tax benefit, $789,901 (4.37 per share), resulting from such utilization is shown as an extraordinary item in 1991.

Management is confident that the steps required to continue the Company in operation will be accomplished in 1992. Management has no knowledge of any other trends, events or uncertainties that would have a material effect on capital, other than as mentioned above.

Results of Operation

Performance in 1992 Compared to 1991

As compared with the same period last year, the Bank's loan portfolio decreased from $69,241,247 in 1991 to $68,992,068. This .36% decrease is mainly due to a 13.36% decrease in real estate loans and a 20.19% decrease in personal loans. Commercial loans increased 13.36% in 1992 from 1991. Credit card loans also increased 1.53% in 1992 from 1991. The reserve for loan losses underwent no material changes. Delinquent credit card loans are charged off monthly by means of the Bank's formula. Monthly provisions to the reserve for losses were $65,000.00. The Bank's board met quarterly to discuss the reserve balance and approve additional provisions.

The Bank's Total Retail Information Management System (TRIMS) is currently installed in one retail outlet, down from 12 retail outlets in 1990. TRIMS is an accounting system for retailers which include payroll, inventory, on order, purchasing and other such operational reports. Income is generated and recognized monthly, through payments from the retailers for this service. The Bank earned $2,696 in first quarter 1992 and $2.673 in first quarter 1991.

The system's cost was fully amortized over 60 months, ending October 31, 1986, as prescribed by the FDIC. There are no other material costs associated with the TRIMS system.

Interest income decreased from $3,185,322 in 1991 to $3,094,868 or a 2.84% decrease. This decrease is mainly due to a 26.78% decrease in interest earned on commercial loans. Interest income on investment Securities also decreased 46.64%.

Total interest expense decreased 32.32% in 1992 from $1,210,782 in 1991 to $819,402 in 1992. This decrease is mainly due to a 30.92% decrease in interest paid on deposits.

Provisions for loan losses remained the same in 1991 and 1992, $195,000.

Operating revenues and expenses decreased 5.37% and 5.35%, respectively for periods ended March 31, 1992 and 1991. These changes are attributed to fluctuations in the Company's volume of business.

One of the key measures of a bank's performance is its return on assets. The major components of the Company's net income, expressed as a percent of average assets for March 31, 1991, 1990 and 1989 are shown below.

(dollars in thousands)

	1992	1991	1990
Average Assets	$103,281	$101,170	$101,761
Net Income	$264	$279	$85

As a Percent of Total Average Assets

	1992	1991	1990
Net interest income............	2.20%	1.95%	2.18%
Provision for Loan Losses......	0.19%	0.19%	0.51%
Cost of operations.............	1.82%	1.48%	1.59%
Provision for income tax.......	-0.06%	0.00%	0.00%
Net Income.....................	0.26%	0.28%	0.08%

Net Interest Income

Net interest income, the difference between interest income and interest expense, is a signficant component of the performance of a banking organization. Data used in the analysis of net interest income are derived from the daily average levels of earnings assets and interest-bearing deposits as well as from the related income and expense. Net interest income is not developed on a taxable equivalent basis because the level of tax exempt income is not material. The following analysis reflects some decreases and some increases in interest income and net interest income, but largely demonstrates that the Company's performance has been fairly constant over the past three years.

	1992	1991	1990
	(dollars in thousands)		
Total interest income............	$3,095	$3,185	$3,510
Average interest-earning Assets..	$89,151	$87,958	$89,053
Average Rate earned..............	3.47%	3.62%	3.94%
Total interest expense....	$819	$1,211	$1,290
Average interest-bearing liabilities...................	$72,442	$73,165	$72,991
Average rates paid...............	1.13%	1.66%	1.77%
Net interest income..............	$2,275	$1,975	$2,220
Net yield on average earning assets.........................	2.55%	2.25%	2.49%
Ratio of average earning assets to total average assets........	86.32%	86.94%	87.51%
Net yield on total average assets.	2.20%	1.95%	2.18%

Loan Loss Allowance

The allowance for loan losses represented 1.21% of outstanding loans on December 31, 1990, compared to ratios of 1.38%, 1.37% and 1.19 % at March 31, 1992, 1991 and 1990, respectively. This ratio of the allowance for loan losses increased during the year to take into account management's evaluation of the loan portfolio in light of the current economic conditions in Louisiana.

The allowance represents the amount which, in management's judgment, will be adequate to absorb future charge-offs of existing loans which may become uncollectible. The allowance is determined by continuous evaluation of the loan portfolio, taking into account all known problem loans, unknown inherent risks generally associated with bank lending, past loan loss experience, delinquency ratios and current and projected economic conditions.

The evaluation of the loan portfolio is conducted by an asset quality review function that is separate from the lending function at the Bank. Loans are identified where there has possibly been some deterioration of credit quality and are classified as potential problem loans and those where the credit should be monitored more closely. From this specific identification process, an evaluation is made of the appropriate level of loan loss allowance to assign to each loan. Finally an additional allowance is assigned to potential losses not specifically identified.

The loan loss experience of the Bank has been affected by the depressed economic conditions of Louisiana, especially real estate, as charge-offs have totaled .30% of average outstanding loans (approximately $208,155) for the period ending March 31, 1992 and charge-offs of .28% (approximately $201,355) for the period ending March 31, 1991 and charge-offs of .28% (approximately $609,960) for the period ending Marchr 31, 1990.

The Bank's Other Real Estate category has also been affected by the depressed economic conditions in Louisiana. This was coupled with the adverse impact the bank encountered with the merger, whereby the bank inherited over $2,500,000 in other real estate. Other Real Estate owned totaled $3,972,840 as of March 31, 1992. Other Real Estate owned as of March 31, 1991 totaled $3,952,695 as compared to $3,506,974 as of March 31, 1990. During the first quarter of 1992, $211,000 of other real estate was sold and new parcels of $46,370 were added due to foreclosing on loans which had defaulted and were in the nonaccraul staus.

The Bank's nonaccrual loans plus the other real estate ("ORE") amounted to $4,711,840 at March 31, 1992 an 13.79% decrease as compared to nonaccrual loans and ORE of $5,465,695 at March 31, 1991, which was also a decrease compared to total nonaccrual loans and ORE of $5,820,974 at March 31, 1990.

Management does not anticipate any other trends or factors which would have a material impact on future operating results, liquidity or capital resources.

Non-Performing Assets

Loans are placed on a nonaccrual status when there is uncertainty about the timely payment of principal and interest. When a loan is on nonaccrual status, interest income is no longer accrued and is only recognized when received. The loan review process ensures that all loans which meet the criteria for nonaccrual status are placed on nonaccrual. As nonacrrual loans move through the usual cycle of either collection, charge-off or foreclosure, nonaccrual loans are expected to decline.

The Bank had total non-performing loans (30 days or more past due, but still accruing interest) of $3,790,450 and $4,167,567 for the quarters ended March 31, 1992 and 1991. This decrease is attributable to the collection efforts and the charge-off of certain loans which had collateral values declining due to the depressed real estate market.

The Bank had $739,000 in total loans on non-accrual status on March 31, 1992 and

$1,513,000 on March 31, 1991.

No other potential problem loans existed at March 31, 1991 as defined under Section III-C-2 of the Industry Guide 3.

Other Income and Expense

The amount of other income and other expenses of a banking organization relate closely to the size of the total assets and deposits and the number of deposit accounts. Other income consists primarily of service charges and fees charged in connection with maintaining deposit accounts. Other income compared to average total assets was .77%, .90% and .76%, respectively, for the three periods ended in 1992.

Total other income decreased from $909,613 in 1991 down to $780,284 or a 14.22% decrease. The major components of this group are service charges on deposit accounts and other non-interest income. Service charges on deposit accounts increased 10.04% in 1992 and other non-interest income decreased 31.58%.

The other expense category represents the cost of operating the banking organization. These expenses compared to average total assets were 2.36%, 2.38% and 2.58%, respectively, for the three periods ended in 1992.

Performance in 1991 Compared to 1990

As compared with the same period last year, the Bank's loan portfolio decreased from $77,809,328 in 1990 to $69,241,247 in 1991. This 1.10% decrease is mainly due to a 18.66% decrease in commercial loans and a 14.76% decrease in personal loans. Real estate loans decreased 13.66% in 1991 from 1990. Credit card loans also decreased 6.97% in 1991 from 1990. The reserve for loan losses underwent no material changes. Delinquent credit card loans are charged off monthly by means of the Bank's formula. Monthly provisions to the reserve for losses were $65,000.00. The Bank's board met quarterly to discuss the reserve balance and approve additional provisions.

The Bank's Total Retail Information Management System (TRIMS) is currently installed in one retail outlet, down from 12 retail outlets in 1990. TRIMS is an accounting system for retailers which include payroll, inventory, on order, purchasing and other such operational reports. Income is generated and recognized monthly, through payments from the retailers for this service. The Bank earned $2,673 in first quarter 1991 and $5,367 in first quarter 1990. This decrease in income is attributable to retail merchants going out of business, closing 5 outlets total.

The system's cost was fully amortized over 60 months, ending October 31, 1986, as prescribed by the FDIC. There are no other material costs associated with the TRIMS system.

Interest income decreased from $3,509,894 in 1990 to $3,189,398 in 1991 or a 9.13% decrease. This decrease is mainly due to a 21.90% decrease in interest earned on real estate loans. Interest income on Federal Funds Sold increased 4.00%.

Total interest expense decreased 5.85% in 1991 from $1,290,353 in 1990 to $1,214,858 in 1991. This increase is mainly due to a 6.40% decrease in interest paid on deposits.

Provisions for loan losses decreased 62.59% from $521,225 in 1990 down to $195,000 in 1991.

Operating revenues and expenses decreased 4.58% and 9.29%, respectively for periods ended March 31, 1991 and 1990. These changes are attributed to fluctuations in the Company's volume of business.

BOL BANCSHARES, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS OF THE COMPANY

The Company was organized as a Louisiana corporation on May 7, 1981 for the purpose of becoming a registered bank holding company under the Bank Holding Company Act. The Company was inactive until April 29, 1988 when it acquired Bank of Louisiana, BOS Bancshares, Inc. and its wholly owned subsidiary, Bank of the South, and Fidelity Bank and Trust Company of Slidell, Inc., and its wholly owned subsidiary, Fidelity Land Co. in a business reorganization of entities under common control in a manner similar to a pooling of interest. The acquired companies are engaged in the banking industry. The acquired companies became a wholly owned subsidiary of the Company through the exchange of 2,320,542 shares of preferred stock, 181,381 shares of common stock, assumed debt of $2,873,624 and cash consideration of $1,328,370 for all of the outstanding stock of the acquired companies.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Bank of Louisiana. In consolidation, significant inter-company accounts, transactions, and profits have been eliminated.

INVESTMENT SECURITIES

Investment securities are stated at cost, adjusted for amortization of premiums and accretion of discounts. Gains and losses, if any, are recognized when securities are sold using the specific identification method. The Bank does not maintain any trading account securities.

LOANS AND UNEARNED INCOME

Loans are stated at the amount of unpaid principal, reduced by unearned discount and an allowance for loan losses. Unearned discount on installment loans is recognized as income over the term of the loan on the interest method. Interest on other loans is calculated and credited to operations on a simple interest basis. Loans are charged against the allowance for loan losses when management believes that collectibility of the principal is unlikely. Loan origination fees and certain direct origination costs, when material, are capitalized and recognized as an adjustment of the yield on the related loan.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluation of the collectibility of loans and prior loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. Accrual of interest is discontinued and accrued interest is charged off on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful.

BOL BANCSHARES, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Buildings, office equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization computed principally on the straight-line and modified accelerated cost recovery methods over the estimated useful lives of the assets.

INCOME TAXES

The Company and its consolidated subsidiary file a consolidated federal income tax return. Federal income taxes are allocated between the companies, in accordance with a written agreement.

MEMBERSHIP FEES

Membership fees are collected in the month of May and amortized over a twelve-month period using the straight-line method.

CASH AND DUE FROM BANKS

The Company considers all amounts Due from Banks and Federal Funds Sold to be cash equivalents.

The Bank is required to maintain non-interest bearing reserve balances with the Federal Reserve Bank to fulfill its reserve requirements. The average amount of the reserve balance was approximately $1,043,615 and $1,517,192 for the years ended December 31, 1991 and 1990 respectively.

NOTE B
OTHER REAL ESTATE OWNED

The Subsidiary Bank has acquired various parcels of real estate in connection with the default and foreclosure on certain loans. These properties are recorded on the Subsidiary Bank's records at the lower of the loan balance or appraised value.

The net cost of operation of Other Real Estate totaled $84,805 at March 31, 1992 and $39,629 at March 31, 1991.

BOL BANCSHARES, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C

LOANS

Major classifications of loans are as follows:

	March 31, 1992	March 31, 1991
Real Estate Mortgages	19,126,131	19,702,699
Commercial	6,450,656	5,690,563
Personal	5,283,087	6,619,659
Credit Cards	39,423,896	38,830,097
Overdrafts	276,987	145,990
Unearned Discounts	603,932	783,404
Allowance for Loan Losses	964,757	964,357
	68,992,068	69,241,247

The following is a classification of loans by rate and maturity: (Dollar amounts in thousands)

	March 31, 1992	March 31, 1991
Fixed Rate Loans:		
Maturing in 3 Months or Less	5,489	4,119
Maturing between 3 and 12 Months	47,083	43,877
Maturing between 1 and 5 Years	4,963	6,282
Maturing after 5 Years	462	411
	57,997	54,689
Variable Rate Loans:		
Maturing Quarterly or More Frequently	11,825	14,786
Non Accrual Loans	739	1,513
	70,561	
Less: Unearned Discount	604	783
Less: Allowance for Loan Losses	965	964
Net Loans	68,992	69,241

NOTE D

NON-PERFORMING ASSETS

Non-performing assets include real estate acquired through foreclosure or deed taken in lieu of foreclosure. These assets are included on the balance sheet under the account caption, "Other Real Estate", and amount to $3,972,840 at March 31, 1992 and $3,952,695 at March 31, 1991.

Other non-performing assets include repossessed vehicles also acquired through foreclosure. Repossessions totaled $5,601 at March 31, 1992 and $5,526 at March 31, 1991.

Loans are placed on non-accrual status when, in management's opinion, the collection of additional interest is questionable. Thereafter no interest is taken into income unless received in cash or until such time as the borrower demonstrates the ability to pay principal and interest.

At December 31, 1991, $903,672 of loans were in the non-accrual status and $94,601 of interest was foregone. At December 31, 1990, $2,114,300 of loans were in the non-accrual status and $172,229 of interest was foregone.

Renegotiated loans are those commercial loans on which the rate of interest has been reduced as a result of the inability of the borrower to meet the original terms of the loan. Renegotiated loans totaled $379,873 in 1991 and $538,833 in 1990.

Foregone interest income on renegotiated loans was as follows:

	1991	1990
Interest Income That Would Have Been Accrued at Original Contractual Rates	$ 63,214	$ 27,241
Amount Recognized as Interest Income	57,424	8,172
Foregone Revenue	$ 5,790	$ 19,069

BOL BANCSHARES, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE E
INCOME TAXES

The components of income tax expense are:

	1991	1990	1989
Current:			
Federal	$ 238,756	$ 60,701	$ (419,508)
Investment Tax Credit	-	(60,701)	-
Deferred	-	(184,306)	-
Total Income Tax Provision (Benefit)	$ 238,756	$ (184,306)	$ (419,508)

A reconciliation of income tax at the statutory rate to income tax expense at the Company's effective rate is as follows:

	1991	1990	1989
Computed Tax at the Expected Statutory Rate	$ 270,482	$ 30,242	$ (499,526)
Investment Credit	(67,060)	(60,701)	-
Tax-Exempt income - Federal Tax Refunds	-	-	(142,633)
Other Adjustments	(22,939)	30,459	222,651
Excess Book Provision for Loan Losses	58,273	(184,306)	-
Income Tax Expense for Operations	$ 238,756	$ (184,306)	$ (419,508)

Income Taxes Currently Payable:	
Income Tax Expense for Operations	238,756
Adjustment from Prior Year	(600)
Income Tax Expense on Extraordinary Item (Debt Discharge)	906,619
Utilization of NOL Carryforward	(789,901)
Tax Payable for Unconsolidated Subsidiary	123,228
Income Tax Currently Payable	$ 478,102

Certain income and expense items are accounted for differently for financial reporting purposes than for income tax purposes. Provisions for deferred taxes are made in recognition of these timing differences. The principal differences are the method of computing the provision to the allowance for loan losses, recognition of the gain on the sale of a building and depreciation and amortization on property, equipment and leasehold improvements.

The Company accounts for deferred income taxes under Accounting Principles Board Opinion Number 11, as amended.

During 1990, the Company reduced its estimate of deferred taxes to reflect current information on timing differences remaining. This change had an effect of increasing income by $184,306 ($1.03 per share).

BOL BANCSHARES, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE F
ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses were as follows:

	For The Quarter ended March 31,		
	1992	1991	1990
Balance - January 1	$ 933,734	$ 933,734	$ 933,734
Provision Charged to Operations	195,000	195,000	521,225
Loans Charged Off	(208,155)	(201,355)	(608,960)
Recoveries	44,178	36,978	87,735
Balance - December 31	$ 964,757	$ 964,357	$ 933,734

NOTE G
STOCKHOLDERS' EQUITY

PREFERRED STOCK

8%, non-cumulative, non-participating, non-convertible, par value $1; 3,000,000 shares authorized, 2,326,788 shares issued and outstanding in 1991 and 1990. Preferred stock ranks prior to common stock as to dividends and liquidation.

COMMON STOCK

Par value $1; 1,000,000 shares authorized, 180,629 shares issued and outstanding in 1991 and 1990.

NOTE H
EARNINGS (LOSS) PER SHARE

Earnings (loss) per share are computed using the weighted average number of shares outstanding which was 180,629 in 1991, 1990 and 1989. Because preferred stock is non-cumulative, and dividends have not been declared, no provision for dividends has been made for the years ended December 31, 1991, 1990 and 1989.

BOL BANCSHARES, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE I
RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Subsidiary Bank makes loans to its directors, officers and principal holders of equity securities. These loans are made on substantially the same terms including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. An analysis of loans made to directors, officers, and principal holders of equity securities, including companies in which they have a significant ownership interest, is as follows:

	1991	1990
Balance - January 1	$2,324,176	$3,503,968
New Loans Made and Renewals	264,614	72,938
Repayments and Maturities	(189,599)	(332,529)
Other - Persons No Longer Directors	-	(920,201)
Other	(58,500)	-
Balance - December 31	$2,340,691	$2,324,176

Of the loans to officers, directors and principal holders of equity securities at December 31, 1991 and 1990, $70,225 of this amount is included in non-accrual loans.

The Subsidiary Bank leases office space from Severn South Partnership and Tammany Mall Partnership. The general partners of these Partnerships are majority shareholders in BOL BANCSHARES, INC. Rent paid to Severn South Partnership for the years ended December 31, 1991, 1990 and 1989 totaled $412,380, $412,380, and $423,060 respectively. Rents paid to Tammany Mall Partnership for the years ended December 31, 1991, 1990 and 1989 were $74,400, $74,400 and $74,400, respectively.

At December 31, 1991 and 1990 amounts due to officers and directors of the Company totaled $447,728 and $243,613. These amounts which are included in Other Liabilities in the accompanying balance sheets, are payable on demand and bear interest at 10% per annum. Of the debentures payable at December 31, 1991, $68,000 were to officers and directors of the company (see Note O). Notes payable to Directors totaled $99,550 at December 31, 1991 and are also disclosed in Note O.

NOTE J

LEASES

The Subsidiary Bank leases three offices, two of which are with related parties discussed in Note J, under agreements expiring in various years through December 31, 2003. In addition, the Subsidiary Bank rents offices on a month-to-month basis from non-related groups. Various pieces of data processing equipment are also leased.

The total minimum rental commitment at December 31, 1991, under the leases is $2,173,619 which is due as follows:

December 31,	
1992	$ 549,412
1993	550,228
1994	276,792
1995	140,320
1996	105,920
Subsequent to 1996	550,947
	$2,173,619

For the years ended December 31, 1991, 1990, and 1989, $854,404, $848,891 and $839,923 was charged to rent expense, respectively.

The Subsidiary Bank is the lessor of office space under operating leases expiring in various years through 2003.

Minimum future rentals to be received on non-cancelable leases as of December 31, 1991 for each of the next 5 years and in the aggregate are:

December 31,	
1992	$ 68,094
1993	59,196
1994	58,185
1995	48,672
1996	41,672
Subsequent to 1996	205,789
	$481,608

NOTE K

INVESTMENT SECURITIES

Carrying amounts and approximate market values of investment securities are summarize as follows:

	Carrying Amount	Unrealized Gains	Unrealized Losses	Approximate Market Value
March 31, 1992:				
U.S. Treasury Securities	$4,984,219	$0	$1,519	$4,982,700
Goverment Agencies	-	-	-	-
Other Securities	119,886	17,589	-	137,475
	$5,104,105	$17,589	$1,519	$5,120,175
March 31, 1991:				
U.S. Treasury Securities	$7,615,562	$24,906	$31,712	$7,608,756
Goverment Agencies	499,649	2,069	-	501,718
Other Securities	119,886	12,624	-	132,510
	$8,235,097	$39,599	$31,712	$8,242,984

Securities of $1,071,607 and $1,413,265 at March 31, 1992 at March 31, 1991 were pledged t fund deposits.

According to industry practice, as long as a bank has both the ability and the intent to hold the securities on a long-term basis, banks do not customarily provide for unrealized declines in their

Note L

INVESTMENT IN COMMON STOCK

Included in investment securities is $50,000 representing the Subsidiary Bank's investment in common stock of First American Bank of Tangipahoa. Also included in investment securities is $ representing the Subsidiary Bank's investment in 3.4% of the common stock of Mississippi River investments are carried at cost.

BOL BANCSHARES, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE M
LETTERS OF CREDIT

Outstanding letters of credit were $173,960 and $170,060 as of March 31, 1992 and 1991 respectively.

NOTE N
PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	March 31,	
	1992	1991
Furniture and Equipment	$ 1,822,430	$ 1,651,170
Bank Owned Vehicles	42,588	42,588
Leasehold Improvements	435,962	332,069
Land	468,425	400,000
Buildings	1,366,298	1,000,000
Accumulated Depreciation and Amortization	(1,853,244)	(1,593,962)
	$ 2,282,459	$ 1,831,865

Depreciation and amortization expense aggregated

NOTE O
NOTES PAYABLE

The following is a summary of notes payable of December 31, 1991 and 1990:

	December 31,	
	1991	1990
Notes payable to FDIC, interest payable semi-annually at 1% above the prime rate, secured by 100% of the issued and outstanding shares in Subsidiary Bank. Partially discharged and refinanced through debentures in 1991 (Note Q).	-	$4,144,064
Notes payable to bank, due November, 1992, plus interest at 1% above the prime rate, secured by 2500 shares of First American Bank of Tangipahoa stock.	49,526	50,000
Notes payable to Officers and Directors of Subsidiary Bank, payable on demand, interest at 10%.	407,354	-

BOL BANCSHARES, INC. & SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 0
NOTES PAYABLE (Continued)

	December 31, 1991	December 31, 1990
Notes payable to Director, interest at 13.5%, maturing September 30, 2006, monthly payments of $1,298.	$ 99,550	$ -
Notes payable to bank, due November, 1992, plus interest at 1% above the prime rate, secured by 662 shares of the Subsidiary Bank's stock.	32,559	-
Debentures payable, due July, September, and November 1994, interest at 11.25%, callable at 103% and 102% of face value in 1993 and 1994 respectively, interest payable semi-annually, each $500 debenture secured by 23.83 shares of the Subsidiary Bank's stock.	1,933,000	-
	$2,521,989	$4,194,064

Following are maturities of long-term debt:

1992	$ 491,728
1993	2,618
1994	1,935,994
1995	3,424
1996	3,916
Subsequent to 1996	84,309
	$2,521,989

NOTE 0

NOTE PAYABLE (Continued)

The following is a summary of notes payable as of March 31, 1992:

Notes payable to bank, due November, 1992, plus interest at 1% above the prime rate, secured by 2500 shares of First American Bank of Tangipahoa stock.	49,526
Notes payable of Officers and Directors of Subsidiary Bank, payable on demand, interest at 10%.	430,811
Notes payable to Director, interest at 13.5% maturing September 30, 2006, monthly payments of $1,298.	99,046
Notes payable to bank, due November, 1992, plus interest at 1% above the prime rate, secured by 662 shares of the Subsidiary Bank's stock.	32,559
Debentures payable, due July, September, and November 1994, interest at 11.25%, callable at 103% and 102% of face value in 1993 and 1994 respectively, interest payable semi-annually, each $500 debenture secured by 23.83 shares of the Subsidiary Bank's stock.	1,933,000
Total Notes Payable	2,544,942

BOL BANCSHARES, INC. & SUBSIDIARY

STATEMENT OF INCOME
CONSOLIDATED

SUPPLEMENTARY INFORMATION

SCHEDULE I
OTHER NON-INTEREST INCOME

	March 31		
	1992	1991	1990
Cardholder Income	$169,600	$192,471	$208,747
Items Processing Income	1,885	1,803	1,763
Data Processing Income	3,913	6,469	9,505
TRIMS	2,696	2,673	5,367
Other Income	23,801	193,142	22,344
ORE Income	51,322	22,355	18,106
Other Charge Card Income	9,845	11,125	14,161
Other Serv. Chg. Comm & Fees	48,998	49,525	62,449
Service Charges Carpenters	212	138	266
Gain on Sale of Building	50,442	50,442	50,442
	$362,714	$530,143	$393,150

SCHEDULE II
OTHER NON-INTEREST EXPENSE

	1992	1991	1990
Loan and Charge Card Exp.	$220,733	$201,066	$227,869
ORE Expense	136,128	127,825	64,960
Stationery, Forms & Supplies	108,305	84,220	119,174
Communications	225,092	174,861	171,461
Professional Fees	115,356	141,477	166,579
Other Operations Expenses	79,377	89,131	52,173
Public Relations & Entertainment	31,536	33,390	39,187
Other Insurance & Assessment	63,746	74,452	36,003
Advertising	74,475	31,832	17,802
Other Taxes	4,540	2,149	11,977
Losses - Checks and Other	2,902	12,600	2,711
Cash Over and Short	2,710	3,633	4,055
	$1,064,900	$976,636	$913,951

BANK OF LOUISIANA
STATEMENT OF CONDITION

UNCONSOLIDATED

ASSETS	March 31, 1992	1991
Cash and Due from Banks		
Non-Interest Bearing Balances and Cash	$7,217,497	$6,896,028
Interest Bearing Balances	15,000	10,000
Securities	5,104,105	8,235,097
Federal Funds Sold	13,600,000	11,100,000
Loans - Less allowance for Loan Losses of $964,757-1992 & $964,357-1991	68,992,068	69,241,247
Property, Equipment and Leasehold Improvements (Net of Depreciation and Amortization)	2,282,460	1,831,865
Other Real Estate Owned	3,972,840	3,952,695
Other Assets	1,350,487	1,313,092
Investment in Subsidiary	1,205,600	987,873
Total Assets	$103,740,057	$103,567,897

LIABILITIES & STOCKHOLDERS' EQUITY

	1992	1991
LIABILITIES:		
Deposits		
Non-Interest Bearing	$26,034,361	$24,586,162
Interest Bearing	69,269,053	70,655,058
Other Borrowed Money	49,526	49,526
Debentures	0	0
Deferred Taxes	111,655	111,655
Notes Payable	97,314	0
Deferred Gain on Sale of Bldg.	100,884	151,326
Other Liabilities	814,868	1,036,988
Total Liabilities	96,477,661	96,590,715
STOCKHOLDERS'EQUITY		
Common Stock	1,430,000	1,430,000
Preferred Stock	0	0
Surplus	4,616,796	3,961,796
Undivided Profits	935,062	1,161,388
Dividends Paid	0	0
Current Earnings	280,538	423,998
TOTAL STOCKHOLDERS EQUITY	7,262,396	6,977,182
Total Liabilities and Capital	$103,740,057	$103,567,897

BANK OF LOUISIANA
STATEMENT OF INCOME
UNCONSOLIDATED

	March 31,	
	1992	1991
INTEREST INCOME		
Interest & Fees on Loans		
Real Estate Loans	$442,630	$471,048
Commercial Loans	147,810	201,878
Installment Loans	151,360	182,506
Credit Card and Related Plans	2,151,007	2,078,260
Interest on Time Deposits	196	654
Securities Issued by State and Political Subdivisions of the U.S.	0	0
All Other Securities	69,839	127,450
Interest on Federal Funds Sold	132,026	123,526
Total Interest Income	3,094,868	3,185,322
INTEREST EXPENSE		
Interest on Time Deposits of $100,000 or More	70,776	176,956
Interest on Other Deposits	678,104	911,120
Interest on Federal Funds Purchased	0	0
Other Interest Expense	4,669	2,168
Interest Expense Debentures	0	0
Total Interest Expense	753,549	1,090,244
NET INTEREST INCOME	2,341,319	2,095,078
Provision for Loan Losses	195,000	195,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,146,319	1,900,078
OTHER INCOME		
Service Charge on Deposit Accounts	417,571	379,470
Other Non-Interest Income	362,713	530,143
Gain on Extinguishment of Debt	0	0
Total Other Income	780,284	909,613
OTHER EXPENSE		
Salaries and Employee Benefits	1,123,310	983,112
Occupancy Expense	457,855	449,788
Other Non-Interest Expenses	1,064,900	952,793
Goodwill and Organizational Amortization	0	0
Total Other Expenses	2,646,065	2,385,693
Capital Gains	0	0
Income Before Tax Provision	280,538	423,998
Provision For Taxes	0	0
Total Net Income	$280,538	$423,998
Earnings Per Share of Common Stock	$1.96	$2.97

BANK OF LOUISIANA
STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
UNCONSOLIDATED

	COMMON STOCK	SURPLUS	UNDIVIDED PROFITS	TOTAL
Balance - Dec. 31, 1988	1,430,000	3,961,796	1,770,069	7,161,865
Cash Dividends Declared for the Year			(178,750)	(178,750)
Net Loss for the Year 1989			(962,647)	(962,647)
Balance - Dec. 31, 1989	1,430,000	3,961,796	628,672	6,020,468
Net Income - March 31, 1990			210,360	210,360
Cash Dividends Declared			0	0
Balance March 31, 1990	1,430,000	3,961,796	839,032	6,230,828
Balance - Dec. 31, 1990	1,430,000	3,961,796	1,161,388	6,553,184
Net Income - March 31, 1991			423,998	423,998
Cash Dividends Declared			0	0
Balance March 31, 1991	1,430,000	3,961,796	1,585,386	6,977,182
Balance - Dec. 31, 1991	1,430,000	4,616,796	935,062	6,981,858
Net Income - March 31, 1992			280,538	280,538
Cash Dividends Declared			0	0
Balance March 31, 1992	1,430,000	4,616,796	1,215,600	7,262,396

Signatures

Under the requirements of the Securities Exchange Act of 1934, the Bank of Louisiand and BOL Bancshares, Inc. has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BOL BANCSHARES, INC

BANK OF LOUISIANA

5-12-92
Date

Peggy L. Schaefer
Duly Authorized Officer

G. Harrison Scott
Chairman of the Board

In the opinion of Management, the financial information furnished reflect all disclosures necessary to present fairly the financial position of the Bank of Louisiana and BOL Bancshares, Inc. as of March 31, 1992.

5-12-92
Date

Duly Authorized Officer

G. Harrison Scott
Chairman of the Board

STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST Dated January 15, 1990
FDIC - 89-191b

On the fifteenth day of the last month in each quarter, beginning with March 15, 1990 Bank of Louisiana is to furnish written progress reports to the Regional Director and the Commissioner detailing the form and manner of any actions taken to comply with the Cease and Desist Order.

Ordered that Bank of Louisiana cease & desist from the following

A. Engaging in hazardous lending and lax collection practices
B. Operating with inadequate primary capital
C. Operating with a large volume of poor quality loans
D. Operating with an inadequate loan valuation reserve
E. Operating with inadequate provisions for liquidity
F. Operating in such a manner as to produce low earnings
G. Operating in violation of section 23A of the Federal Reserve (Banking Affiliates Act of 1982)
H. Operating with management whose policies and practices are detrimental to the bank & jeopardize the safety of its deposits
I. Operating with a board of directors which has failed to provide adequate supervision over & direction to the active management of the bank

The bank shall accomplish the following by the date stated to the left of each plan and/or objective.

MARCH 1992 PROGRESS REPORT

DUE DATE &	DESCRIPTION OF PLAN OR OBJECTIVE	OFFICER LIABLE	PLAN/ OBJECTIVE ATTAINED	ACTION TAKEN
	as stated in the prior paragraph.			proper approval & documentation
6. 1/15/90 Pg 13	The bank shall not extend credit to any borrower where the outstanding debt to that borrower would exceed $50,000 unsecured and/or $100,000 secured unless the extension receives prior board approval and recorded as outlined in the previous paragragh.	Scott	Yes	The loan supervisor & the auditor has the authority to check the minutes to ascertain the proper approval & documentation
7. 1/25/90 Pg 10	The bank shall eliminate from its books by charge-off or collection, all assets classified as loss and one-half of the assets classified as doubtful as of the June 16, 1989 exam.	Scott	Yes	With the exception of the Mirranne loan,which is current chargeoffs have been completed as per exam of 6/16/90;Due to litigation Occhis was chrgd off 5/90
8. 2/14/90 Pg 6	The board of directors shall establish a committee of at 2/3 independent outside directors with the responsibility to ensure that the bank complies with the Order. The committee shall report monthly to the board and a copy of the report & any discussions shall be recorded in the minutes.	Scott	Yes	The Audit & Finance Committee has been designated
9. 2/14/90 Pg 13 14	The board shall establish an internal loan review and grading system to periodically review the bank's loan portfolio and identify and categorize problem credits. The system shall provide the following:	Scott		
	A. Identify the overall quality of the loan	"	Yes	Delinquent & non-accrual rep is used
	B. The identification and amount of each delinquent loan	"	Yes	Delinquent & non-accrual rep is used
	C. An identification or grouping of loans that warrant the special attention of management	"	Yes	All Loans (See G. Scott's Memo)

DUE DATE &	DESCRIPTION OF PLAN OR OBJECTIVE	OFFICER LIABLE	PLAN/ OBJECTIVE ATTAINED	ACTION TAKEN
9.	D. For each loan identified, a stmt of the amount and reasons why the loan merits special attention	Scott	Yes	Delinquent & non-accrual rep is used
	E. Credit and collateral documentation exceptions	Scott	Yes	The internal auditor reviews & documents; report submitted to Audit & Fin
	F. The identification & status of each violation of law, rule or regulation	Scott	Yes	The internal auditor reviews & documents; report submitted to Audit & Fin
	G. Loans not in conformance with the bank's lending policy and exceptions to the bank's lending policy	Scott	Yes	Exceptions are notated on notes
	H. Insider loan transactions	Scott	Yes	All are reviewed by Bd. Auditor reviews all notations
	I. A mechanism for reporting periodically to the board on the status of each loan identified & the action taken by mgmt	Scott	Yes	Documentation via memorandums are retained in file & presented to the board
	A copy of the above reports must be submitted to the board, as well well as documentation of the action taken to collect or strengthen problem credits shall be kept with the minutes.			
10. 2/14/90 Pg 14	The bank shall establish and thereafter maintain an adequate reserve for loan losses. The board shall review the adequacy of the reserves each quarter and minutes shall be recorded indicating results of the	Scott	Yes	The Board reviews and replenishes quarterly.

DUE DATE &	DESCRIPTION OF PLAN OR OBJECTIVE	OFFICER LIABLE	PLAN/ OBJECTIVE ATTAINED	ACTION TAKEN
	review, the amount of the increase, and the basis for determination of the amount provided.			
11. 2/14/90 Pg 15	The bank shall review the Call Reports and amend them to reflect the elimination of all assets classified loss and 1/2 of the doubtful assets.	Schaefer	N/A	All chrg offs completed with the exception N/A of Occhi's in which the Bk had 120 days Chargeoff occurred 5-90.
12. 3/16/90 Ex Pg 15 Policy	The bank shall develope, adopt & implement a written plan to control overhead and other expenses & restore profitability. This plan must be acceptable to the Regional director as determined at subsequent examinations or visitations.	Schaefer	Yes	Plan developed & adopted Financial performance is reviewed monthly dictating the need for review & amendments.
13. 3/16/90 Pg 15 &	The bank shall eliminate the following violations:			
Exam Pgs 6b	A. Any unsecured loans to the holding company	Schaefer	Yes	Original violation reversed 8-1-89 However with LSR&H's restatement of the Merger in 1988, the Parent Co. was indebted to the Sub $113m due to taxes. At YE 1990 $68m in tax was upstreamed to the Holding Co. reducing the debt to $45m, which was paid on 3-12-91; Parent Ck #1097
6b1 6b2	B. Extension of credit to executive officers, directors, or principal shareholders without prior approval of the majority of the board.	Scott Comiskey	Yes	Line of Credit or O.D. Protection implemented

DUE DATE &	DESCRIPTION OF PLAN OR OBJECTIVE	OFFICER LIABLE	PLAN/ OBJECTIVE ATTAINED	ACTION TAKEN
13.	C. Other Real Estate appraisals which are not current	Scott	No	appraisals are past due in the over $50m category.
	D. Blanket bond coverage has not been obtained	Comiskey	Yes	$1,000mm coverage secured with Frank B. Hall Ins. for 1 year. $50M Deductible has been accrued.
	E. Operating with a primary capital to asset ratio which was less than 5.5% after deducting classified assets.	Scott Comiskey	Yes	As of 3-31-92 7.88% based on avg assets. Tier 1 - 9.56% + Tier 2 = 10.81%
14. 3/16/90 Ex Pg 16 Policy	The bank shall formulate and adopt a written liquidity and funds management policy which shall include the following:			
	A. Establishment of acceptable ranges of ratios in volatile liability dependence, total loans to total deposits, and temporary investments to volatile liabilities.	Schaefer	Yes	Policy & Procedure written and adopted
	B. Designate acceptable levels for volatile liabilities, including borrowings; asset mix,including temporary funds and investments, long term investment securities and classes of obligors, and loans to deposits; and rate sensitive assets as a percent of rate sensitive liabilities.	Schaefer	Yes	Policy & Procedure written and adopted
	The policy shall be submitted to the Regional Director and Commissioner for review and comment.			
15. 3/16/90 Ex Pg 16 Policy	The bank shall develope, adopt and implement a written policy which shall govern the relationship between the bank & the holding co. limiting fees and funds paid to the holding company on behalf of the bank.	Scott	Yes	Resolution adopted Plan has been incorporated in Exec Policy FDIC has accepted policy.
16. 3/16/90	Develope a written Management Policy which	Scott	Yes	Senior Mgmt Evaluations

MARCH 1992 PROGRESS REPORT

DUE DATE &	DESCRIPTION OF PLAN OR OBJECTIVE	OFFICER LIABLE	PLAN/ OBJECTIVE ATTAINED	ACTION TAKEN
Ex Pg 5 P 6	incorporates the following:			accomplished & forwarded to FDIC
	A. The number and type of positions needed to properly manage the bank.	Scott	Yes	The number & type have been incorporated into the Mgmt Policy
	B. A clear & concise description of the needed experience and pay for each job	Scott	Yes	Descriptions of key positions have been incorporated in Mgmt Poli
	C. An evaluation of present management	Scott	Yes	Each Mgr is evaluated through various reports & goals
16. Executive Policy	D. A plan to recruit, hire or replace personnel with requisite ability and experience	Scott Comiskey	Yes	Plan has been incorporated in the Executive Policy.
	E. A periodic evaluation of each individual's job performance	Scott	Yes	Constant review of goals & reports for each job is monitored.
	F. The establishment of procedures to periodically review and update the Management Policy	Scott	Yes	Procedure incorporated in Mgmt Policy
	The management policy and any revisions shall be submitted to the Regional director and the Commissioner for review and comment. Within 30 days the policy shall be approved by the board of directors.			
17. 3/16/90 Ex Pg 13 Policy	The bank shall revise, adopt & implement written lending and collection policies to provide effective guidance and control over the bank's lending function. The policy shall include specific guidelines for placing loans on a nonaccrual basis. The bank shall also obtain adequate and current documentation for all loans. These policies shall be submitted to the Regional Director and the Commissioner for review and comment.	Scott Comm/Lns Machado I/L & Credit cards	Yes	Policy & Procedures are incorporate in the Executive Policy Manual.
18. 4/15/90 Pg 10	The bank shall have reduced the assets classified substandard and doubtful to not	Scott	Yes	As of 4/30/90 Non-Performing loans, including OREO,

MARCH 1992 PROGRESS REPORT

DUE DATE &	DESCRIPTION OF PLAN OR OBJECTIVE	OFFICER LIABLE	PLAN/ OBJECTIVE ATTAINED	ACTION TAKEN
	more than $9,000,000.			Repos. & Invest in Sub totaled $7,215,000.
19. 5/16/90 Pg 7	***The bank shall increase its primary capital by no less than $2,550,000 and shall maintain adjusted primary capital equal to or greater than 7.5%.***	**Scott Comiskey**	Yes	**$655m in dividends were declared & upstrmd to Parent to payoff the FDIC under the Forebearance Agrmt. $251m has been booked to the surplus acct fr the Parent. bal of $404m will be bkked replenishing capital through Debenture sales. Current Ratio as of 3-31-92 based on avg assets 7.88 % RISK BASE: Tier 1-9.56% + Tier 2 = 10.81%**
20. 7/14/90 Pg 10	**The bank shall have reduced the assets classified substandard and doubtful to not more than $8,250,000.**	**Scott**	Yes	**As of 6/30/90 Classified assets as per the Exam 6/89 totaled $7,265m.**
21. 10/12/90 Pg 10 11	**The bank shall have reduced the assets classified substandard and doubtful to not more than $7,500,000.**	**Scott**	Yes	**As of 9/30/90 Classified assets as per the Exam of 6/89 totaled $6,987m**
22. 1/10/91 Pg 11	**The bank shall have reduced the assets classified substandard and doubtful to not more than $6,750,000.**	**Scott**	Yes	**As of 12/31/90 Classified assets as per the Exam of 6/89 totaled $6.602m**
23. 4/10/91 Pg 11	**The bank shall have reduced the assets classified substandard and doubtful to not more than $6,000,000.**	**Scott**	Yes	**As per the FDIC Exam of 12-6-92 th adversely classified assets, scheduled in the June 1989 report, were reduced to $5,908m.**

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 10-Q

S 92-2271

(Mark One)

[x] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 1992 or

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ____________ to ____________

PROCESSED BY
MAY 11 1992

Commission file number 0-18090

CAERE CORPORATION
(Exact name of registrant as specified in its charter)

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

12/12:P L3Q

Delaware	94-2250509
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Cooper Court, Los Gatos, California, 95030
(Address of principal executive offices)

(408) 395-7000
(Registrant's telephone number, including area code)

____
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No____

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock.

Class	Outstanding March 31, 1992
Common Stock $.001 par value	5,209,686

This is page 1 of 12 pages

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CAERE CORPORATION
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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

CAERE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	March 31 1992 (Unaudited)	December 31, 1991
ASSETS		
Cash and cash equivalents	$ 31,060	30,971
Receivables (Note B)	6,387	5,931
Other current assets (Note C)	4,729	4,395
Total current assets	42,176	41,297
Property and equipment, net (Note D)	2,904	2,635
Other assets	1,981	1,420
Total assets	$ 47,061	45,352
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accrued expenses and other payables	$ 4,390	4,282
Preferred stock, $.001 par value: authorized 2,000,000 shares; none issued or outstanding	-	-
Common stock, $.001 par value: authorized 15,000,000 shares; issued and outstanding 5,209,686 and 5,193,872 shares	5	5
Additional paid-in capital	28,983	28,901
Retained earnings	13,683	12,164
Total stockholders' equity	42,671	41,070
Total liabilities and stockholders' equity	$ 47,061	45,352

The accompanying notes are an integral part of the condensed consolidated financial statements.

CAERE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	1992	1991
Net revenues	$ 9,342	8,240
Cost of revenues	2,978	2,602
	6,364	5,638
Operating expenses:		
Research and development	1,040	749
Selling, general and administrative	3,203	2,560
	4,243	3,309
Operating earnings	2,121	2,329
Interest income, net	301	437
Earnings before income taxes	2,422	2,766
Provision for income taxes	903	1,061
Net earnings	$ 1,519	1,705
Net earnings per common and common equivalent share (Note E)	$ 0.29	0.32
Shares used in per share calculation	5,293	5,268

The accompanying notes are an integral part of the condensed consolidated financial statements.

CAERE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	1992	1991
Cash flows provided by operations:		
Net earnings	$ 1,519	1,705
Items not requiring the current use of cash:		
Depreciation and amortization	302	176
Amortization of capitalized software development costs	101	64
Stock option compensation expense	2	6
Provision for sales returns and doubtful accounts	72	(81)
Changes in operating assets and liabilities:		
Receivables	(528)	(1,532)
Prepaid expenses and other current assets	(334)	(201)
Accrued expenses and other payables	108	1,221
Cash provided by operations	1,242	1,358
Cash flows used for investing activities:		
Capital expenditures	(473)	(171)
Capitalized software development costs	(195)	(90)
Other assets	(565)	(65)
Cash used by investing activities	(1,233)	(326)
Cash flows provided by financing activities:		
Proceeds from issuances of common stock, net	80	96
Net increase in cash and cash equivalents	89	1,128
Cash and cash equivalents, beginning of period	30,971	26,018
Cash and cash equivalents, end of period	$31,060	27,146
Supplemental disclosures:		
Cash paid for income taxes	$ 1,442	41

The accompanying notes are an integral part of the condensed consolidated financial statements.

CAERE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

A) Basis of Presentation

The accompanying unaudited condensed consolidated balance sheets, statements of earnings and statements of cash flows reflect all adjustments (consisting of only normal recurring adjustments) which are, in the opinion of management, necessary to present the financial position of the Company as of March 31, 1992, and the results of operations and cash flows for the periods indicated.

The accompanying unaudited condensed financial statements have been prepared in accordance with the instructions for Form 10Q and therefore certain information and footnote disclosure normally contained in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company filed audited financial statements with the Securities and Exchange Commission which included all information and footnotes necessary for a complete presentation of the Company's financial position, results of operations and cash flows for the years ended December 31, 1991, 1990 and 1989, in its report on Form 10K for the year ended December 31, 1991 ("the Form 10K"). It is suggested that these condensed financial statements be read in conjunction with the financial statements contained in the Company's Form 10K dated March 13, 1992. The results of operations for the interim periods ended March 31, 1992, are not necessarily indicative of the results to be expected for the full year.

B) Receivables

(In thousands)

A summary of receivables follows:

	March 31, 1992	December 31, 1991 (Audited)
Trade accounts receivable	$ 6,822	6,219
Interest receivable	82	157
	6,904	6,376
Less allowance for returns and doubtful accounts	517	445
	$ 6,387	5,931

C) Other Current Assets

(In thousands)

Other current assets comprise prepaid expenses and inventories. A summary of inventories follows:

	March 31, 1992	December 31, 1991 (Audited)
Raw materials	$ 2,143	1,852
Work in process	833	768
Finished goods	644	779
	$ 3,620	3,399

D) Property and Equipment

A summary of property and equipment follows:

	March 31, 1992	December 31, 1991 (Audited)
	(In thousands)	
Equipment	$ 5,562	5,250
Furniture and fixtures	821	726
Leasehold improvements	595	528
	6,978	6,504
Less accumulated depreciation and amortization	4,074	3,869
	$ 2,904	2,635

E) Net Earnings Per Share

Net earnings per common and common equivalent share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Common equivalent shares consist of options to purchase common stock calculated using the treasury stock method. Fully diluted earnings per share for all periods presented were not materially different from primary earnings per share.

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Revenues

Net revenues increased 13% to approximately $9.3 million during the first quarter of 1992 from $8.2 million in the first quarter of 1991. The increase was due to net revenues for the OmniPage page recognition products increasing 23% to $7.2 million in 1992 from $5.8 million during the comparable quarter in 1991.

The increases in the OmniPage page recognition products net revenues resulted from increased demand across the product line with particuarly strong unit sales of OmniPage Professional.

In addition, the Company introduced a new version of OmniPage, OmniPage Direct, during the first quarter of 1992. Introduced with the new HP ScanJet IIp flatbed greyscale scanner from Hewlett-Packard, OmniPage Direct can be accessed directly from within a personal computer application, allowing the user to insert scanned text directly into a document.

Business products net revenues for the older OCR/bar code products were approximately $2.2 million for the first quarter of 1992 compared to $2.4 million for the first quarter of 1991. The Company expects the net revenues for these products to be relatively flat for the year.

Gross Margins

Gross margins of 68% for the first quarter of 1992 were consistent with gross margins during the comparable quarter in 1991. The most significant factor affecting gross margins in the future will be changes in the product mix between the software-only OmniPage products and products that contain hardware components, such as the Typist and OCR and bar code products. The software-only products have significantly higher gross margins than products that consist of both hardware and software. The Company has experienced shifts in the product mix in the past and expects that such fluctuations may recur in the future.

Operating Expenses

Research and development (R&D) expenses increased 39% to $1,040,000 for the first quarter of 1992 compared to $749,000 for the first quarter in 1991. As a percentage of sales, R&D increased to 11% from 9%. The increases related primarily to additions to the development staff and contract developers for new product development, including OmniPage Direct, which was introduced and shipped during the quarter. The Company has other new products under development that it expects to introduce in 1992 and beyond. In addition the Company intends to invest in continued enhancements to the Company's current products. The Company expects R&D expense to increase in absolute dollars for the remainder of 1992.

Selling, general and administrative (SG&A) expenses increased approximately 25% to $3,203,000 for the first quarter of 1992 compared to $2,560,000 for the comparable quarter of 1991 and, as a percentage of sales, increased to 34% from 31%. The increases resulted primarily from increased promotional costs and commissions associated with the OmniPage products. The Company expects SG&A expense to increase in absolute dollars for the remainder of 1992.

Interest Income

The decrease in interest income was the result of lower interest rates earned on the Company's investments included in cash and cash equivalents.

Net Earnings

Net earnings decreased to $1,519,000 for the first quarter of 1992 compared to $1,705,000 for the first quarter of 1991 due to the increase in operating expenses and the decrease in interest income.

Certain Trends

The Company's future operating results may be affected by various uncertain trends and factors which are beyond the company's control. These include adverse changes in general economic conditions, rapid or unexpected changes in the technologies affecting optical character recognition, rising costs or the unavailability of needed components. The industry has become increasingly competitive, and accordingly, the Company's results may also be adversely affected by the actions of existing or future competitors, including the development of new technologies, the introduction of new products, and the reduction of prices by such competitors to gain or retain market share.

The Company's future earnings and stock price could be subject to significant volatility, particularly on a quarterly basis. The Company's revenues and earnings may be unpredictable due to the Company's shipment patterns. As is common in the software industry, the Company's experience has been that a disproportionately large percentage of shipments has occurred in the third month of each fiscal quarter and shipments tend to be concentrated in the latter half of that month. Because the Company's backlog early in a quarter is not generally large enough to assure that it will meet its revenue targets for any particular quarter, quarterly results may be difficult to predict until the end of the quarter. A shortfall in shipments at the end of any particular quarter may cause the results for that quarter to fall significantly short of anticipated levels. Due to analysts' expectations of continued growth, any such shortfall in earnings could have a very significant effect on the trading price of the Company's common stock in any given period.

As a result of the foregoing factors and other factors which may arise in the future, the market price of the Company's common stock may be subject to significant fluctuations over a short period of time. These fluctuations may be due to factors specific to the Company, to changes in analysts' earnings estimates or to factors affecting the computer industry or the securities markets in general.

Liquidity and Capital Resources

The Company's financial position remains strong, with working capital increasing to $37.8 million and no long-term debt. Cash and cash equivalents aggregated approximately $31.1 million at March 31, 1992. The Company believes that existing cash balances will be sufficient to meet its cash requirements for the foreseeable future.

EXHIBIT 11

CAERE CORPORATION

STATEMENT REGARDING COMPUTATION OF NET EARNINGS PER SHARE

(Unaudited)

	Three Months Ended March 31,	
	1992	1991
Net earnings	$ 1,519,000	1,705,000
Weighted average shares outstanding during the period	5,199,231	5,162,970
Common stock equivalent shares using the treasury stock method	94,218	105,152
Common and common equivalent shares outstanding for purposes of calculating primary net earnings per share	5,293,449	5,268,122
Incremental shares to reflect full dilution	13,012	--
Total shares for purposes of calculating fully diluted net earnings per share	5,306,461	5,268,122
Primary net earnings per common and common equivalent share	$ 0.29	0.32
Fully diluted net earnings per common and common equivalent share	$ 0.29	0.32

PART II. OTHER INFORMATION

Item 6

Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 11 - Statement Regarding Computation of Net Earnings Per Share - page 10

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Company during the period covered by this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAERE CORPORATION

Date: May 6, 1992

Blanche M. Sutter, Vice President Finance
and Chief Financial Officer

(Principal Financial and Accounting Officer
and Duly Authorized Officer)

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarter Ended
March 31, 1992

Commission File No 0-17429

DRIVEFONE, INC.
(Exact name of Registrant as specified in its Charter)

17-17C

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Q-Data Corp. - St. Petersburg, FL
L3C

Delaware
(State of Incorporation)

13-3417465
(IRS Employer Identification No.)

37 Spring Valley Avenue, Paramus, N.J.
(Address of principal executive office)

07653-0588
(Zip Code)

Registrant's telephone number, including area code: (201) 843-6400 Ext. 206

Former name, former address and former fiscal year, if changed since last report: Not Applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for a shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No___

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As of May 11, 1992 there were 1,918,931 shares of Common Stock, $.0005 par value outstanding.

PART I-FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

DRIVEFONE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 1992 (Unaudited)	June 30, 1991
ASSETS		
Current Assets		
Cash	$ 623,000	$ 347,000
Accounts receivable, net	1,185,000	878,000
Inventories	576,000	595,000
Prepaid expenses and other current assets	78,000	100,000
Total Current Assets	2,462,000	1,920,000
Deferred subscriber acquisition costs, net	813,000	510,000
Equipment and leasehold improvements, net	252,000	272,000
Other non-current assets	33,000	40,000
TOTAL ASSETS	$3,560,000	$2,742,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$273,000	$ 562,000
Accrued expenses	151,000	166,000
Commissions payable	382,000	405,000
Current maturities - long-term debt and capitalized lease obligations	581,000	266,000
Total Current Liabilities	1,387,000	1,399,000
Long-term debt and capitalized lease obligations, less current maturities	701,000	1,236,000
TOTAL LIABILITIES	2,088,000	2,635,000
SHAREHOLDERS' EQUITY		
Preferred stock	*	*
Common Stock	1,000	1,000
Paid-in-capital	2,683,000	1,713,000
Accumulated deficit	(1,212,000)	(1,607,000)
TOTAL SHAREHOLDERS' EQUITY	1,472,000	107,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$3,560,000	$2,742,000

* Amount less than $1,000

See Notes to the Condensed Consolidated Financial Statements

DRIVEFONE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	1992	1991 (Restated)	1992	1991 (Restated)
REVENUE				
Equipment sales and other revenue	$ 954,000	$ 976,000	$3,316,000	$4,920,000
Cellular commissions and fees	1,292,000	888,000	3,890,000	2,715,000
Gain upon the sale of future subscriber annuities			266,000	
TOTAL REVENUE	2,246,000	1,864,000	7,472,000	7,635,000
COSTS AND EXPENSES				
Cost of equipment sold	911,000	926,000	3,064,000	4,476,000
Cost of cellular activations	692,000	422,000	2,030,000	1,401,000
Selling, general and administrative expenses	632,000	572,000	1,811,000	1,866,000
Interest expense	26,000	32,000	88,000	99,000
TOTAL COSTS AND EXPENSES	2,261,000	1,952,000	6,993,000	7,842,000
INCOME (LOSS) FROM OPERATIONS BEFORE EQUITY IN NET LOSS OF JOINT VENTURE AND THE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(15,000)	(88,000)	479,000	(207,000)
Equity in net loss of joint venture	(32,000)	(20,000)	(84,000)	(35,000)
Cumulative effect on prior years of change in accounting principle				352,000
NET INCOME (LOSS)	$(47,000)	$(108,000)	$395,000	$110,000
INCOME (LOSS) PER COMMON SHARE AND DILUTIVE EQUIVALENTS:				
Income (Loss) from operations before equity in net loss of joint venture and the cumulative effect of change in accounting principle	$(.01)	$(.05)	$.22	$(.12)
Equity in net loss of joint venture	(.01)	(.01)	(.04)	(.02)
Cumulative effect on prior years of change in accounting principle				.21
Net Income (Loss)	$(.02)	$(.06)	$.18	$.07
Weighted average number of shares and dilutive equivalents outstanding used in computing per share data	2,619,986	1,651,576	2,229,003	1,649,736

See Notes to the Condensed Consolidated Financial Statements

DRIVEFONE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW (Unaudited)

	Nine Months Ended March 31, 1992	Nine Months Ended March 31, 1991 (Restated)
OPERATING ACTIVITIES		
Net income	$395,000	$ 110,000
Adjustments to reconcile net income to net cash flows from operating activities:		
Cumulative effect on prior years of change in accounting principle		(352,000)
Depreciation and amortization	58,000	65,000
Gain from the sale of future subscriber annuities	(266,000)	
Amortization of deferred subscriber acquisition costs	226,000	172,000
Equity in loss of joint venture	84,000	35,000
Changes in operating assets and liabilities:		
Accounts receivable	(307,000)	282,000
Inventories	19,000	225,000
Prepaid expenses and other current assets	22,000	(35,000)
Deferred subscriber acquisition costs	(588,000)	(267,000)
Other non-current assets	7,000	3,000
Accounts payable, accrued expenses and commissions payable	(327,000)	(302,000)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(677,000)	(64,000)
INVESTING ACTIVITIES		
Proceeds from the sale of future subscriber annuities	325,000	-
Purchases of equipment and leasehold improvements	(38,000)	(23,000)
NET CASH FLOWS FROM INVESTING ACTIVITIES	287,000	(23,000)
FINANCING ACTIVITIES		
Net proceeds from sale and exercise of warrants	970,000	-
Principal payments on long-term debt and capital lease obligations	(220,000)	(143,000)
Investment in joint venture	(84,000)	(35,000)
NET CASH FLOWS FROM FINANCING ACTIVITIES	666,000	(178,000)
NET CHANGE IN CASH	276,000	(265,000)
CASH AT BEGINNING OF PERIOD	347,000	484,000
CASH AT END OF PERIOD	$623,000	$ 219,000

See Notes to the Condensed Consolidated Financial Statements

DRIVEFONE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW---Continued

	Nine Months Ended March 31, 1992	1991
Supplemental schedule of non-cash investing and financing activities		
Equipment acquired under: Capital leases	-	$ 53,000
Common Stock issued in settlement of accounts payable	-	$ 10,000
Forgiveness of debt by majority shareholder	-	$ 38,000
Debt issued in exchange for accounts payable	-	$251,000

See Notes to the Condensed Consolidated Financial Statements

DRIVEFONE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)
Nine months Ended March 31, 1992

	Number of Common Shares	Amount	Number of Preferred Shares	Amount	Paid in Capital	Accumulated Deficit	Total Shareholders' Equity
Balance, July 1, 1991	1,652,376	$1,000	6,250	$ *	$1,713,000	$(1,607,000)	$107,000
Cancellation of stock	(376,749)	*					
Sale and exercise of warrants	415,000	*			970,000		970,000
Net income						395,000	395,000
Balance, March 31, 1992	1,690,627	$1,000	6,250	$ *	$2,683,000	$(1,212,000)	$1,472,000

*Amount less than $1,000.

See Notes to Condensed Consolidated Financial Statements

DRIVEFONE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Basis of Presentation

The balance sheet at the end of the preceding fiscal year has been derived from the audited balance sheet contained in the Company's Form 10-K and is presented for comparative purposes. All other financial statements are unaudited. In the opinion of management, all adjustments which include only normal recurring adjustments necessary to present fairly the financial position, results of operations, changes in shareholders' equity and cash flows for all periods presented have been made. The results of operations for interim periods are not necessarily indicative of the operating results for the full year.

Footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted in accordance with the published rules and regulations of the Securities and Exchange Commission. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Form 10-K for the most recent fiscal year.

Change In Method For Accounting For Cellular Subscriber Acquisition Cost

The effect of the change made in fiscal 1991 was to increase by approximately $95,000 the previously reported net income in the nine months ended March 31, 1991 and decrease the net loss by $25,000 for the three months then ended. The cumulative adjustment of $352,000 (or $.21 per share) to apply retroactively the new method is included in determining net income in fiscal 1991.

Income Taxes

The Company adopted the provisions of Statement of Financial Accounting Standards No. 96 as of July 1, 1991 which, among other things, requires the benefit of net operating loss carryovers, when realized, to be reported as a reduction of the income tax provision. Accordingly, income taxes of $134,000 for the nine months ended March 31, 1992 which would otherwise have been provided were eliminated. There is no cumulative effect adjustment as of July 1, 1991, as losses were incurred in prior years.

Long-term Debt

In October 1991, the Company entered a new agreement with its bank curing technical defaults under its bank loan agreement and, in exchange for a payment of $75,000, rescheduled payment of the remaining $350,000 balance of the renewable line of credit. Under the terms of the revised agreements, the renewable line of credit is payable in monthly installments of $3,000 per month commencing July 1992 with the remaining balance due January 1, 1993.

In October 1991, the Company renegotiated the repayment terms of a $350,000 note payable by a subsidiary of the Company to a cellular carrier and obtained a release of the Company from its guarantee of this note. Under the terms of the revised note agreement, the note is repayable in 24 equal monthly payments commencing January 1, 1993.

Sale of Annuity Rights

In October 1991, the Company sold for $325,000, its rights to receive annuity payments in future years on approximately 30% of its subscriber base to the Cellular Telephone Company ("CTC"), the cellular carrier obligated to make such payments. Previously deferred subscriber acquisition costs related to the subscriber annuity rights sold of $59,000 have been charged against the proceeds received.

Shareholders' Equity

On November 18, 1991, the Board of Directors declared a one-for-five reverse split of the Company's common stock effective January 22, 1992. All agreements concerning stock options were amended to provide for the change. All references to numbers of shares and to per share information in the condensed consolidated financial statements have been adjusted to reflect the reverse stock split on a retroactive basis.

On November 18, 1991 the majority stockholders, upon a written consent, approved a change in the authorized shares of common stock to 7,500,000 shares par value $.0005.

Under the terms of the agreement entered into in 1988 wherein the Company acquired Drive Phone, Inc., 376,747 of the shares issued in connection with the acquisition were placed in escrow pursuant to the terms and conditions of an escrow agreement. The escrowed shares were owned and voted by the registered owners thereof. As a result of the failure of the Company to meet certain performance levels during the three years ending November 30, 1991 the escrowed stock was cancelled effective December 2, 1991. Assuming the escrowed stock had never been issued, net loss per share for the three months ended March 31, 1992 and 1991 would have been $.02 and $.09 respectively and net income for the nine months ended March 31, 1992 and 1991 $.21 and $.09 respectively.

On December 10, 1991 the Company sold 700,000 warrants expiring March 15, 1992, to purchase a like number of shares of common stock to several private investors, coupled with an agreement to register the shares issuable upon the exercise of the warrants under the Securities Act of 1933. Subsequently, 600,000 of the warrants were extended until April 6, 1992, and were exercised. In addition, 100,000 warrants were extended until June 15, 1992 and remain outstanding. In connection with these transactions, the Company issued a warrant to a finder to purchase 250,000 shares of common stock at a price of $1.00 per share which warrant remains outstanding and expires on November 30, 1993. However, the Company is negotiating certain conditions to the exercise of the warrants.

On December 26, 1991 the Company issued a warrant expiring on November 30, 1996 to a financial public relations firm to purchase 100,000 shares of Common Stock at a price of $4.375. This warrant was cancelled on March 27, 1992.

The issuance of the above warrants resulted in a "substantial change in ownership" as defined in the Internal Revenue Code of 1986, which limits the Company's use of net operating loss carryforwards. During the three year period following such a change the utilization of tax loss carryforwards is limited to the value of the Company, on the date of such change, multiplied by the Federal long-term tax exempt rate (the "annual limitation"). To the extent amounts available under the annual limitation are not used, they may be carried forward for the remainder of 15 years from the date the losses were originally incurred.

As a result of the above changes in common stock and warrants, use of net operating losses will be limited to approximately $400,000 per year.

Subsequent Events

Subsequent to March 31, 1991 the Company received $463,000 in gross proceeds from the exercise of warrants by private investors.

On May 1, 1992 the Company entered into a two year consulting and warrant agreement with a new financial public relations firm. The agreement provides among other things that the financial public relations firm receive each year a warrant to acquire 30,000 shares of Common Stock at a price of $4.25 per share. The agreement is terminable by the Company after one year.

The Company has been advised by CTC that it intends, effective April 1, 1992, to reduce the activation fee it pays the Company and the Company has advised CTC that it believes that for this, and other reasons, it is in violation of the agent agreement between tho parties. The Company and CTC are attempting to resolve their differences through negotiation. If, however, the issues between the parties are not resolved upon terms satisfactory to the Company, in the opinion of the management of the Company, its future results of operations may be negatively impacted and will require the Company to consider what remedies under the agreement and law are necessary to protect its interests.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The following table presents the percentage of total revenue for the periods indicated and changes from period to period of certain items included in the Company's Condensed Consolidated Statement of Operations.

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,		Period to Period Percentage Changes	
					For the Three Months Ended March 31,	For the Nine Months Ended March 31,
	1992	1991	1992	1991	1992 vs. 1991	1992 vs. 1991
Equipment sales and other revenue	42.5%	52.4%	44.4%	64.4%	(2.3)	(32.6)
Cost of equipment sold	40.6	49.7	41.0	58.6	(1.6)	(31.6)
Gross profit - equipment sales and other revenues	1.9	2.7	3.4	5.8	(14.0)	(43.3)
Cellular commissions and fees and gain on the sale of subscriber annuities	57.5	47.6	55.6	35.6	45.5	53.1
Cellular dealer commissions	30.8	22.6	27.2	18.4	64.0	44.9
Gross profit-cellular commissions and fees	26.7	25.0	28.4	17.2	28.8	61.8
Total gross profit	28.6	27.7	31.8	23.0	24.6	35.3
General and administrative expenses	21.3	22.9	17.3	18.0	12.2	(5.5)
Selling expenses	6.8	7.8	6.9	6.4	5.5	4.2
Interest expense	1.2	1.7	1.2	1.3	(18.8)	(11.1)
Income (loss) from operations	(.7)%	(4.7)%	6.4%	(2.7)%	(83.0)	-
Net income (loss)	(2.1%)	(5.8)%	5.3%	1.4%	(56.5)	259.1

Three months ended March 31, 1992 vs. Three months ended March 31, 1991

For the three months ended March 31, 1992 total revenue increased approximately $382,000 (20%) as compared to the prior fiscal year period. Equipment sales declined by $114,000 during the period while other revenue, mostly paging service billings, increased by $92,000. Cellular commissions and fees, increased by $404,000.

The decline in aggregate sales of equipment (consisting of sales in connection with cellular activations and sales unrelated to cellular activations "stand alone equipment sales") during the quarter ended March 31, 1992 compared to the similar period in the prior year resulted mainly in the decline in stand alone equipment sales, especially of accessories. Sales of cellular telephones to local dealers increased $79,000 while sales of stand alone telephones declined $64,000 and other equipment revenue declined $129,000.

The increase in revenue from cellular carriers resulted from both an increase in the number of activations and annuity revenue from a larger subscriber base. Approximately 3,500 cellular telephones were activated during the current period as compared to 2,300 in the prior year. The Company's major source of activation and annuity revenue results from its agent agreement with CTC, the non-wireline carrier in the metropolitan New York area. The Company believes that CTC has violated its agent agreement, for, among other reasons, proposing to lower without proper notice the activation fees it pays the Company. Failure by the Company to resolve its differences with CTC would have a negative impact on the Company's future results of operations.

The Company, in certain markets and subject to certain contractual agreements, receives commission revenues from cellular carriers based upon the airtime usage of cellular service subscribers activated through the Company. In October 1991, the Company sold its right to receive annuity payments on certain subscribers in future years. The initial effect of the sale was to reduce annuity payments however, since then, additional subscribers have been acquired and the Company's subscriber base at March 31, 1992 for which the Company receives ongoing annuity payments was 19,000, approximately 10% greater than its base at March 31, 1991. Annuity payments to the Company for the period equalled $143,000, an increase of 15% from the comparable period in the prior year.

In fiscal 1991, the Company started a pager reselling operation and at March 31, 1992 the Company had approximately 2,200 subscribers on its system resulting in the aforementioned increase in other revenue.

Gross profits for the three months ended March 31, 1992, increased by $127,000 to $643,000 from $516,000 in the prior fiscal year period. Gross profit from the sale of equipment and other revenue during the current year period aggregated $43,000, a decline of $7,000 from the prior year, while gross profit from cellular commission and fees increased $134,000 to $600,000.

After giving effect to the Company's change in its method of accounting for subscriber acquisition costs in fiscal 1991, the gross profit on cellular commissions and fees on a percentage basis of related revenue in the current period approximated 46% versus 52% reported in the prior year period. The decline results from continued competitive pressure in the markets the Company services, especially the New York metropolitan area, including from CTC.

Selling, general and administrative expenses for the three month period ended March 31, 1992 were $632,000, a $60,000 increase from the similar period in the prior year. This resulted mainly from increases in all categories of general and administrative expenses including compensation and employee costs.

Interest expense of $26,000 in the current three month period was 19% lower than in the prior year as a result of the Company's repayment of debt and the effect of the decline in the prime interest rate.

For the three months ended March 31, 1992 the Company had a loss from operations of $15,000 a $73,000 decline from the loss reported in the prior year three month period. This improvement resulted from the previously discussed increase in gross profit.

Net loss for the three months ended March 31, 1992 was $47,000 a $61,000 decline from the comparable period in fiscal 1991. Included in fiscal 1992 reported results is the Company's $32,000 share of the losses from its joint venture with Otron Corporation discussed below.

Nine Months ended March 31, 1992 vs. Nine Months ended March 31, 1991

For the nine months ended March 31, 1992 total revenue declined approximately $163,000 (2%) as compared to the prior fiscal year period. Equipment sales decline of $1,942,000 was substantially offset by increases in cellular activation fees and annuity revenue as well as revenue from the sale of future subscriber annuity rights and paging revenue.

With respect to revenue from cellular equipment sales, declines were experienced in all facets of the Company's operations. The major portion of the decline resulted from the fact that included in fiscal 1991's revenue were approximately $850,000 realized from the sale of inventory of a manufacturer exiting the industry as well as an approximately $500,000 decline in the sale of antennas and accessories. Also contributing to the decline was management's decision to dedicate more of its working capital towards obtaining cellular activations versus stand alone equipment sales.

In fiscal 1991, the Company started a pager reselling operation and at March 31, 1992 the Company had approximately 2,200 subscribers on its system resulting in the increase in other revenue. Revenue from the Company's paging operations for the nine months ended March 31, 1992 aggregated approximately $400,000 compared to $68,000 in the comparable prior year period.

Revenue from cellular carriers, for which the Company is an agent, increased, although in the first six months of the fiscal year it was negatively impacted by the Company's lack of an adequate supply of cellular telephones for local dealers. The increase resulted from both an increase in the number of activations and annuity revenue from a larger subscriber base. The Company's level of activations in the current period was the highest in its history with approximately 11,000 cellular telephones activated during the current period as compared to 7,300 in the prior year.

The Company, in certain markets and subject to certain contractual agreements, receives commission revenues from cellular carriers based upon the airtime usage of cellular service subscribers activated through the Company. Annuity payments to the Company for the period equalled $449,000 an increase of 16% from the comparable period in the prior year.

Gross profits for the nine months ended March 31, 1992 increased by $620,000 to $2,378,000 from $1,758,000 in the prior fiscal year period. Gross profit from the sale of equipment and other revenue during the current year period aggregated $252,000, a decline of $192,000 from the prior year, while gross profit from cellular commission and fees increased $546,000 to $1,860,000 plus the $266,000 gain of the sale of future subscriber annuity revenue in October 1991. The improvement in gross profits is also partially attributable to various activation incentive programs offered occasionally by CTC.

After giving effect to the Company's change in its method of accounting for subscriber acquisition costs in fiscal 1991, the gross profit on cellular commissions and fees on a percentage basis of related revenue in the current period was relatively constant when compared to the similar period in the prior year.

Selling, general and administrative expenses for the nine month period ended March 31, 1992 were $1,811,000, a $55,000 decline from the similar period in the prior year. The decline occurred as a result of the Company's continuing efforts to control general and administrative expenses while expanding its level of operations.

Interest expense of $88,000 in the current nine month period was 11% lower than in the prior year as a result of the Company's scheduled repayment of debt and the effect of the decline in the prime interest rate.

For the nine months ended March 31, 1992, the Company had income from operations of $479,000 compared to a loss of $207,000 in the prior year nine month period. This improvement resulted from the aforementioned increase in gross profits realized on cellular commissions and fees and the gain upon the sale of future subscriber annuities.

Net income for the nine months ended March 31, 1992 was $395,000 a $285,000 increase from the comparable period in fiscal 1991. Included in fiscal 1991 results however, was the $352,000 cumulative effect on prior years of the Company's change in its method of recording subscriber acquisition costs. Also, included in fiscal 1992 reported results is the Company's $84,000 share of the losses from its joint venture versus a $35,000 loss in the prior year and the $266,000 gain from the sale of future subscriber annuities. The increase in the loss from the joint venture results from the expenses being incurred in connection with establishing the venture's product line and also legal and other professional fees being incurred in connection with the development of the ventures analog cellular phone scheduled for delivery late in calendar 1992.

Liquidity and Capital Resources

During the two years ended June 30, 1991 the Company financed its working capital requirements through a substantial increase of vendor credit and the conversion of a substantial portion of vendor credit to equity and long-term debt. Subsequently the Company experienced product shortages from major suppliers because of its failure to comply with their credit terms. However, as a result of the exercises of warrants during and subsequent to the quarter ended March 31, 1992 the Company has sufficient working capital to purchase product.

On September 21, 1990 the Company entered into a joint venture agreement with Otron Corporation, a Korean manufacturer of electronic products. Pursuant to the joint venture agreement, the Company may make capital contributions of up to $1 million. However, contributions in excess of $100,000 are not required until both the Company and Otron are satisfied that the mobile communications products developed do not infringe on existing patents. As a practical matter, neither party presently will commit resources in excess of $200,000 each until they are satisfied that the mobile communication products have commercial merit. To date the Company has contributed approximately $150,000 to the joint venture and Otron has contributed approximately $125,000. The Company has advised its joint venture partner that the partner may have to advance the required funds on behalf of the Company and the joint venture partner has expressed a willingness to do so. In connection with the importation of the first product being distributed by the joint venture commencing December 1991, the joint venture has arranged for the financing of the purchase of the product with Hyosung (America), Inc., an affiliate of Otron.

In October 1991, the Company renegotiated a $350,000 note payable to CTC rescheduling the repayment from 12 monthly principal payments originally scheduled to commence in May 1991, to 24 monthly principal payments commencing January 1993. In addition, the Company sold for $325,000 its rights to receive annuity payment in future years on approximately 30% of its subscriber base to the cellular carrier obligated to make such payment. Concurrently, the Company renegotiated its bank loans, which were in technical default. Under the terms of the Company's new agreement with its bank, the technical defaults with respect to a $425,000 renewable line of credit have been cured in exchange for a principal payment of $75,000 and a one half percent increase in the interest rate to prime plus 2%. Payment of the remaining balance has been extended. These transactions are anticipated to positively impact cash flow until 1994 and may have a negative effect thereafter.

On December 10, 1991 the Company sold warrants to purchase an aggregate of 700,000 shares of its common stock to several private investors, coupled with an agreement to register the shares issuable upon the exercise of the warrants under the Securities Act of 1933. Through April 6, 1992, warrants for 600,000 shares were exercised and the warrant for the remaining 100,000 shares now expires on June 15, 1992. In connection with this transaction the Company issued a warrant to a finder to purchase 250,000 shares of common stock at a price of $1.00 per share which warrant expires on November 30, 1993. However, the Company is negotiating certain conditions to the exercise of the warrant. Of the gross proceeds of $1.5 million received, approximately $500,000 was invested in the Company's cellular agent business and the remaining balance is available for other corporate purposes.

PART II-OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On January 22, 1992, by written consent of a majority of the Company's shareholders without a meeting, action was taken to:

(1) Amend the Company's certificate of incorporation to effect a one-for-five reverse common stock split, increase the par value of shares of common stock to $.0005 and increase the number of authorized shares of common stock from 3,800,000 to 7,500,000;

(2) adopt the Company's 1991 Director Stock Option Plan: and

(3) adopt an amendment to the Company's Non-Qualified Stock Option Plan to increase the number of shares which may be subject to options which may be granted under the plan from 40,000 to 340,000.

Each of the foregoing was approved by the holders of 971,957 shares of the Company's common stock, constituting 58% of such stock outstanding on November 18, 1991, the record date. All of such holders were members of the Company's board of directors. No proxies or consents were solicited from other holders of common stock.

ITEM 5. OTHER MATTERS

From the beginning of 1992 through April 9, 1992, the Company has received $1,500,000 of gross proceeds upon the exercise of warrants by private investors.

The Company has been advised by the Cellular Telephone Company ("CTC") that it intends, effective April 1, 1992, to reduce the activation fee it pays the Company and the Company has advised CTC that it believes that for this, and other reasons, it is in violation of the agent agreement between the parties. The Company and CTC are attempting to resolve their differences by negotiation.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

None

(b) Reports on Form 8-K

(1) On March 3, 1992, the Company filed a Current Report on Form 8-K reporting the sale of 700,000 warrants to private investors including a pro forma balance sheet reflecting the exercise of 200,000 of the warrants.

(2) On March 18, 1992, the Company filed a Current Report on Form 8-K reporting the extension of the expiration date of the aforementioned warrants.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Drivefone, Inc.

DATE: May 19, 1992

By:
Michael A. Pfeffer
President (Chief Executive Officer)

DATE: May 19, 1992

By: Lee R. Montellaro
Lee R. Montellaro
Executive Vice President
(Chief Financial Officer)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1992.

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from............to................
Commission file number 2-67171

Equitable Bankshares of Colorado, Inc.
(Exact name of registrant as specified in its charter)

Colorado	84-0826324
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

821 17th Street, Denver, Colorado 80201
(Address of principal executive offices)

PROCESSED
MAY 21 1992

(303) 293-2265
(Registrant's telephone number, including area code)

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes_X_ No___

.30

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.
Yes___ No___

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	NUMBER OF SHARES AT March 31, 1992
Common	104,703

EQUITABLE BANKSHARES OF COLORADO, INC.
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EQUITABLE BANKSHARES OF COLORADO, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

	March 31, 1992 (000)	December 31, 1991 (000)
ASSETS:		
Cash and due from banks	$9,788	$7,560
Interest-bearing deposits with banks	2,796	2,896
Federal funds sold and securities purchased for resale	4,800	6,960
Cash and cash equivalents	17,384	17,416
Investments (market value of $20,835,000 in 1992 and $18,411,000 in 1991)	20,665	18,940
Loans	61,240	61,622
Less unearned income on loans	(223)	(220)
Less allowance for loan losses	(1,150)	(1,187)
	59,867	60,215
Other real estate owned	313	307
Equipment, furniture & fixtures-net	522	549
Cash surrender value of life insurance	891	879
Interest receivable & other assets	1,288	2,008
TOTAL ASSETS	$100,930	$100,314
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Deposits		
Demand deposits	$35,410	$33,275
Savings deposits	30,139	28,333
Time deposits	26,829	30,033
Total deposits	92,378	91,641
Note payable to bank	300	450
Other liabilities	444	729
TOTAL LIABILITIES	93,122	92,820
Shareholders' equity:		
Common stock	1,047	1,047
Capital in excess of par value	1,174	1,172
Undivided profits	5,587	5,275
TOTAL SHAREHOLDERS' EQUITY	7,808	7,494
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$100,930	$100,314

See accompanying note.

EQUITABLE BANKSHARES OF COLORADO, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended	
	31-Mar-92 (000)	31-Mar-91 (000)
Total interest income	$2,028	$2,176
Interest on deposits	687	1,031
Interest on note payable	5	14
Net interest income	1,336	1,131
Provision for loan losses	60	36
Net interest income after loan loss provision	1,276	1,095
Other operating income:		
Service charges on deposit accounts	192	162
Other income	144	140
Total other operating income	336	302
Other operating expenses:		
Salaries and employee benefits	596	574
Occupancy	90	103
Property and equipment	55	47
Promotion	29	29
Customer service	26	20
Data processing	28	23
Insurance	53	82
Other real estate owned	6	69
Other	243	150
Total other operating expenses	1,126	1,097
Income(loss) before income taxes	486	300
Provision for (benefit from) income taxes:		
Current	172	118
Deferred	0	0
	172	118
Net income	$314	$182
Net income per common share	$3.00	$1.74

See accompanying note.

EQUITABLE BANKSHARES OF COLORADO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
Quarters ended March 31, 1992 and 1991

	Quarter-end 31-Mar-92	Quarter-end 31-Mar-91
Cash flows from operating activities:		
Net income	314	182
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	37	36
Deferred loan fees	(3)	(159)
Loss on other real estate owned	6	33
Depreciation and amortization	42	32
Amortization of net premium on securities	12	12
Minority interest in earnings of The Women's Bank, N.A.	4	3
Decrease (increase) in accrued interest receivable and other assets	720	431
Decrease (increase) in surrender value of Officer's life insurance	(12)	(12)
Increase (decrease) in other liabilities	(285)	(51)
Net cash provided by operating activities	835	507
Cash flows from investing activities:		
Proceeds from maturities of investments	5,497	269
Purchase of investment securities	(7,222)	(1,837)
Net increase in loans	382	(954)
Purchase of furniture and fixtures	27	(2)
Sale of other real estate owned	0	99
Sale of other assets	0	0
Net cash used in investing activities	(1,316)	(2,435)
Cash flows from financing activities:		
Net increase (decrease) in demand, savings, NOW and money market accounts	3,941	(6,167)
Net increase in time deposits	(3,204)	541
Payments on notes payable	(150)	(150)
Payments of dividends	0	(2)
Other	(138)	0
Net cash provided by financing activities	449	(5,776)
Net increase (decrease) in cash and cash equivalents	(32)	(7,704)
Cash and cash equivalents at beginning of year	17,416	27,847
Cash and cash equivalents at end of year	17,384	20,143

See accompanying note.

SELECTED FINANCIAL DATA

The following schedules present in condensed form selected financial data of Equitable Bankshares of Colorado, Inc.

FINANCIAL HIGHLIGHTS	March 31, 1992	December 31, 1991
Assets	$100,930,000	$100,314,000
Deposits	92,378,000	91,641,000
Equity	7,808,000	7,494,000
Net Earnings (Loss)	314,000	1,446,000
Primary Capital/Asset Ratio	7.74%	7.47%
Risk-Based Capital Ratio	12.48%	11.47%
Return on Year-to-Date Assets	1.25%	1.44%
Return on Year-to-Date Deposits	1.36%	1.58%
Return on Year-to-Date Equity	16.13%	19.30%
Average Assets	$97,748,000	$94,477,000
Average Deposits	89,608,000	86,467,000
Average Equity	7,402,000	6,695,000
Return on Average Assets	1.29%	1.53%
Return on Average Deposits	1.41%	1.67%
Return on Average Equity	17.01%	21.60%
Average Equity/Asset Ratio	7.57%	7.09%
Interest Income	$2,028,000	$8,927,000
Interest Expense	(692,000)	(3,719,000)
Net Interst Income	$1,336,000	$5,208,000
Other Operating Income	336,000	870,000
Other Operating Expenses	(1,126,000)	(4,144,000)
Loan Loss Provision	(60,000)	(144,000)
Income Tax (Provision) Benefit	(172,000)	(344,000)
Net Income (Loss)	$314,000	$1,446,000
Net Income (Loss) per Common Share	$3.00	$13.81

EQUITABLE BANKSHARES OF COLORADO, INC. AND SUBSIDIARIES
ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

	March 31, 1992 (000)	December 31, 1991 (000)
Balance at beginning of period	1,187	1,130
Charge-offs:		
Domestic:		
Commercial, financial and agricultural	84	76
Real estate-construction	0	7
Real estate-mortgage	0	0
Installment loans to individuals	20	40
Lease financing	0	0
Foreign	0	0
	104	123
Recoveries:		
Domestic:		
Commercial, financial and agricultural	7	11
Real estate-construction	0	15
Real estate-mortgage	0	0
Installment loans to individuals	0	9
Lease financing	0	0
Foreign	0	0
	7	35
Net charge-offs	97	88
Additions charged to operations	60	145
Balance at end of period	1,150	1,187
Ratio of net charge-offs during the period to average loans outstanding during the period	0.00159%	0.00149%

EQUITABLE BANKSHARES OF COLORADO, INC. AND SUBSIDIARIES
PAST DUE AND NONACCRUAL LOANS AND RESTRUCTURED LOANS
Quarter ended March 31, 1992

	Past due 90 days or more and still accruing (000)	Nonaccrual (000)	Restructured loans and leases (000)
Loans secured by real estate	0	0	964
Commercial and industrial loans	253	866	971
Loans to depository institutions	0	0	0
Loans to finance agricultural production	0	0	0
Loans to individuals for household, family, and other personal expenditures	0	0	0
Loans to foreign governments and official institutions	0	0	0
All other loans	0	0	0
Lease financing receivables	0	0	0
Other assets (excluding other real estate owned and repossessed assets)	0	0	0
Total	253	866	1,935

EQUITABLE BANKSHARES OF COLORADO, INC. AND SUBSIDIARIES

Interest Rate Sensitivity Analysis

GAP TABLE

March 31, 1992

	0-30 DAYS	31-91 DAYS	91-180 DAYS	181-365 DAYS	TOTAL 1 YR	TOTAL >1 YR	TOTAL
EARNING ASSETS:							
Federal funds sold	4,800	0	0	0	4,800	0	4,800
Investment securities	533	1,664	1,389	3,089	6,695	13,970	20,665
Loans	38,863	3,0[illegible]	2,750	1,631	47,417	14,046	61,463
Other earning assets	2,796	0	0	0	2,796	0	2,796
TOTAL EARNING ASSETS	46,992	4,7[illegible]	4,139	4,720	61,708	28,016	89,724
INT-BEARING LIABILITIES:							
Savings accounts	4,542	0	0	0	4,542	0	4,542
NOW accounts	14,348	0	0	0	14,348	0	14,348
MMDA accounts	26,013	0	0	0	26,013	0	26,013
Certificates of deposit	9,416	7,685	5,234	4,105	26,440	389	26,829
Other IBA's	0	0	0	0	0	0	0
TOTAL INT-BEARING DEP'S	54,319	7,685	5,234	4,105	71,343	389	71,732
Fed funds purchased							
TT&L note option							
TOTAL INT-BEARING LIAB.	54,319	7,685	5,234	4,105	71,343	389	71,732
FUNDS GAP	(7,327)	(2,969)	(1,095)	615	(9,635)	27,627	17,992
CUMULATIVE FUNDS GAP	(7,327)	(10,296)	(11,391)	(10,776)	(9,635)	17,992	17,992
GAP % OF EARNING ASSETS	-15.59%	-3.31%	-1.22%	0.69%	-15.61%	98.61%	20.05%
CUM. GAP % OF EARN. ASSETS	-15.59%	-11.48%	-12.70%	-12.01%	-15.61%	64.22%	20.05%

Interest-rate sensitivity refers to the banks capability to adjust the yield-rate on assets and cost-rate on liabilities to changes in money-market yields and rates. If market rates rise, will the bank's asset yields and liability costs rise, fall, or be constant? If internal yield and rates move contrary to market yields and rates, the banks stand to experience wind-fall gains and losses. The magnitude of these gains or losses depends upon the severity and timing of the market changes on the banks ability to adjust. The ability to adjust is controlled by the remaining time to maturity of fixed rate contracts, customer actions, and the existence (or non-existence) of contracts which provide for rate adjustments prior to maturity.

The goal of EQUITABLE's banks is to minimize fluctuations in net interest margin as a % of earning assets and to increase the dollars of net interest margin at a growth rate consistent with the growth rate of total assets. These goals will be accomplished by balancing the volume of floating-rate liabilities with a similar volume of floating-rate assets, by keeping the average maturity of fixed-rate asset and liability contracts reasonable consistent and short, and by routinely adjusting pricing rates to market conditions on a weekly basis. EQUITABLE's goal is to maintain a gap % of + o - 5% of net rate sensitive assets and rate sensitive liabilities to total earning assets during a one-year operating cycle.

EQUITABLE BANKSHARES OF COLORADO, INC. AND SUBSIDIARIES
NOTE TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
MARCH 31, 1992
(UNAUDITED)

1. Basis of Presentation

In the opinion of Management, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position as of March 31, 1992 and the results of operations for the three months ended March 31, 1992 and 1991, and the changes in cash flow for the three month period ended March 1992 and 1991.

MANAGEMENTS' DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATION

OVERVIEW

Equitable Bankshares of Colorado, Inc., a multi-bank holding company was organized in the State of Colorado as a corporation in 1980. Under the authority of The Bank Holding Act and Regulation Y, the Board of Governors of The Federal Reserve serve as the primary regulatory authority for the company.

The Board is authorized to issue such regulations and orders as may be necessary to enable it to administer and carry out the purposes of the Act and prevent evasions thereof.

The Board requires reports under oath to keep it informed as to whether the provisions of the Act and such regulations and orders issued thereunder have been complied with; and the Board may make examinations of each bank holding company and each subsidiary thereof.

The Board shall, as far as possible, use the reports of examinations made by the Comptroller of the Currency and the Federal Deposit Insurance Corporation for purposes of this regulation.

During the three months ended March 31, 1992, Equitable Bankshares of Colorado, Inc. showed favorable financial gains over the same period in 1991.

Equity, deposits and total assets continue to reflect steady growth. Loan loss provision as a percentage of gross income has been level during the years 1990, 1991 and 1992.

Management is pleased with the solid growth in loans and investments during the periods reported in these financial statements.

Women's Bank continues to be in contention for a position as one of Colorado's **"Top Ten Financial Institutions'**, as a result of recorded deposit growth and performance.

LIQUIDITY AND CAPITAL RESERVES

The liquidity of our banks continues to be excellent. We can readily meet current and future needs. There are no known commitments, events or uncertainties to alter our outlook.

We made our scheduled first quarter 1992 principal reduction on the note payable of $150,000, reducing the loan balance to $300,000.

Our capital and other reserves reflect growth and strength. Our equity ratio continues to be well above regulatory requirements. Current plans include continued capital growth through retention of earnings.

Careful alignment of asset and liability maturity schedules provides us with control of our net interest margin.

We expect continued growth in the second quarter of 1992 with quality control over our entire balance sheet.

RESULTS OF OPERATIONS

Corporate earnings for the three months ended March 31, 1992 after taxes and reserves, show net income of $314,000 as compared to net income of $182,000 a year ago and a net income of $162,000 in 1990. This increase in 1992 is primarily a result of higher net interest income, other operating income and control of operating expenses. Net interest income plus other operating income for the three months ended March 31, 1992 is $239,000 greater than for the period in 1991. This is the result of good interest margin, increased loans outstanding, loan fees and service charge income. Other operating expenses increased $29,000 in 1992 over the same period in 1991. Expressed as a % to total income, or 1%, this increase is primarily due to increases in employee salaries and benefits and FDIC insurance expense.

The overall results in 1992 compared to 1991 represents a 73 % increase in net income after taxes and loan loss provision.

Gross unrealized gains and gross unrealized losses in the investment portfolio, as of this date, equal $288,317 and $90,018 respectively. The company's investment policy is to purchase securities based upon yield to maturity, diversity and safety of principal. There were no realized gains or losses in the portfolio during the reporting period or year-to-date.

Management is comfortable with our loan loss provision and we endorse this method of calculation for protection of capital.

PART II

ITEM 1 LEGAL PROCEEDINGS

Not Applicable

ITEM 2 CHANGES IN SECURITIES

Not Applicable

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable

ITEM 5 OTHER INFORMATION

None

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

Not Applicable

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EQUITABLE BANKSHARES OF COLORADO, INC.

DATE: May 15, 1992

Thora R. Aarvig
Secretary

DATE: May 15, 1992

Harold D. Bates
Treasurer

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CURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15(d) of
THE SECURITIES EXCHANGE ACT OF 1934

~~RECD S.E.C.~~ 138

For the Quarter Ended
March 31, 1992

Commission File
Number 33-23587-LA

GALLERY RODEO INTERNATIONAL
(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

95-4140608
(IRS Employer
Identification No.)

421 North Rodeo Drive
Beverly Hills, CA
(Address of Principal
executive offices)

90210
(Zip Code)

Registrant's telephone number: (310) 273-2135

RECD S.E.C.
MAY 15 1992
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NOT APPLICABLE
Former name, former address
and former fiscal year if
changed since last report

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

As of May 14, 1992 there were 7,130,672 shares of Common Stock outstanding.

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GALLERY RODEO INTERNATIONAL

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Item 1. Financial Statements

GALLERY RODEO INTERNATIONAL
Condensed Balance Sheets
March 31, 1992 and December 31, 1991

	(Unaudited) March 31, 1992	December 31, 1991
ASSETS		
Current Assets:		
Cash	$ 52,039	$ 123,059
Accounts Receivable, Net	1,975,644	1,714,527
Loans to officer	164,836	140,435
Inventories	2,235,539	2,369,818
Prepaid Expenses and Other	150,789	127,737
TOTAL CURRENT ASSETS	$4,578,847	$4,475,576
Equipment & Leasehold Improvements (net of depreciation and amortization)	320,814	327,403
Deposits and Other	148,650	143,768
TOTAL ASSETS	$5,048,311	$4,946,747

See Notes to financial statements

GALLERY RODEO INTERNATIONAL
Condensed Balance Sheets (continued)
March 31. 1992 and December 31. 1991

	(Unaudited) March 31. 1992	December 31. 1991
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable and Accrued Expenses	$ 515.4[illegible]	$ 379.694
Customer Deposits	692.0[illegible]	1.016.1[illegible]
Total Current Liabilities	$1.207.[illegible]	$1.395.862
Stockholders' Equity:		
Common Stock-100.000.000 shares authorized;6.730.672 shares issued and outstanding at March 31. 1992; 6.725.672 shares issued and outstanding at December 31. 1991	77.5[illegible]	77.559
Additional Paid-in Capital	3.340.[illegible]	3.340.438
Retained Earnings	422.[illegible]	132.867
Total Stockholders' Equity	$3.840.[illegible]	$3.550.864
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$5.048.[illegible]	$4.946.747

See notes to financial statements

GALLEY RODEO INTERNATIONAL

Condensed Income Statements
for the Three Month Periods Ended March 31, 1992
and March 31, 1991
Unaudited

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
Sales	$1.211.847	$1.860.332
Sales of Franchises	400.000	- - -
Total Revenues	$1.611.847	$1.860.332
Cost of Sales	493.673	389.051
Gross Profit	$1.118.174	$1.471.281
Selling Expense	352.134	596.259
General and Administrative Expenses	476.457	589.452
Income from Operations	$ 289.583	$ 285.570
Other Income (Expense)	300	235
Net Income	$ 289.883	$ 285.805
Earnings Per Share	$ .04	$ .04

See Notes to financial statements

GALLERY RODEO INTERNATIONAL
Condensed Statements of Cash Flow
For the Three Month Periods Ended March 31. 1992
and March 31. 1991
(Unaudited)

	Three Months Ended March 31. 1992	 March 31. 1991
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 289.883	$ 285.805
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation & Amortization	11.601	10.058
Changes in Current Assets and Current Liabilities		
Accounts Receivable, Net	(261.117)	(138.651)
Inventories	134.279	(155.778)
Other Current Assets	(47,453)	41.650
Accounts Payable and Accrued Expenses	135,774	20.155
Customer deposits and Other	(324.098)	(107.243)
Net Cash Provided by (Used in) Operating Activities	$(61.131)	$ (44.004)
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed Asset Acquisition	(5.012)	- - -
Deposits and Other	(4.882)	- - -
Net Cash Provided by (Used) Investing Activities	$(9.894)	- - -
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital Contributions	5	- - -
Net Increase (Decrease) in Cash	$ (71.020)	$ (44.004)
Cash at Beginning of Period	123.059	103.910
Cash at End of Period	$ 52.039	$ 59,905
Cash Paid for interest	$ 581	$ 344

See notes to financial statements

GALLERY RODEO INTERNATIONAL
Notes to Condensed Financial Statements
(Unaudited)

Note 1. Condensed Financial Statements

Statements

The condensed balance sheet as of March 31, 1992, the income statements and the statements of cash flows for the three month periods ended March 31, 1992 and March 31, 1991 have been prepared by the Company, without audit.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows at March 31, 1992 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 1991 financial statements. The results of operations for the period ended March 31, 1992 are not necessarily indicative of operating results for the full year.

Note 2. Summary of Accounting Policies

Business

Gallery Rodeo International markets original fine art and limited edition serigraphs, lithographs and sculpture. The Company promotes its own as well as other artists in art galleries throughout the United States and through its three company-owned galleries.

The Company also buys and sells art through its relationships in Europe and Japan.

GALLERY RODEO INTERNATIONAL
Notes to Condensed Financial Statements (continued)
(Unaudited)

Inventories

Inventories, consisting primarily of finished artworks, are valued at the lower of cost or market using the specific identification method.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost. Depreciation is being provided by use of the straight-line method over the estimated useful lives of these assets. Leasehold improvements are amortized over the term of the lease. The cost and accumulated depreciation of items sold or retired are removed from the asset accounts and the resulting gain or loss is recognized in income. Expeditures for maintenance and repairs are charged to expense, as incurred.

Revenues

Revenue from sales of artwork is recognized upon passage of title to the customer.

Taxes on Income

The Company has adopted Statement No. 96 of the Financial Accounting Standards Board. When material, deferred income taxes are provided on differences between the financial reporting and income taxes bases of assets and liabilities based upon statutory tax rates enacted for future periods.

Reclassifications

Certain reclassifications have been made to the prior periods financial statements to conform to the March 31, 1992 presentation.

GALLERY RODEO INTERNATIONAL
Notes to Condensed Financial Statements
(Unaudited)

Note 3. Income Taxes

For federal and state income tax purposes, the company recognizes revenue using the net receipts methods, which is another form of cash basis accounting. This significantly reduces sales. This method is acceptable under the Internal Revenue Code. For tax purposes, the Company has reported net losses for the years ended Decmeber 31, 1991, 1990 and 1989. The Company has significant net operating loss carryforwards for tax purposes. Due to the above, the Company is not reporting a provision for income tax expense.

Note 4. Stockholders' Equity

Stockholders' equity changed as follows:

Stockholders' Equity, December 31, 1991	$3.550.864
Issuance of 5,000 shares of common stock	5
Net Income for Three Months Ended March 31, 1992	289.883
	==========
Stockholders' equity, March 31, 1992	$3,840.752
	==========

Item 2. Management's Discussion and Analysis of the Financial Condition and Operating Results

Results of operations - Quarter ended March 31, 1992

Sales volume (sale of artwork) decreased by approximately 34% compared to the quarter ended March 31, 1991. This was due to resistance in the marketplace and a general recessionary environment both in the overall economy and very specifically in the sales of fine art. However, the Company had its first sale of franchises this quarter. Two franchises to operate "Gallery Rodeo" art galleries were sold for $200,000 apiece. Total revenue for the three month period was $1,612,000 compared to $1,860,000 in 1991.

Cost of sales increased from 21% of sales in 1991 to 30% because of increased competitive pressures.

Selling expenses and general and administrative expenses decreased due to management's cost containment policies.

Liquidity and Capital Resources

Working capital increased by $292,000 to $3,371,000 from $3,079,000 at December 31, 1991 through funds generated from operations.

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - None

(b) Reports on Form 8-K - There were no reports on Form 8-K filed for the three months ended March 31, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunder duly authorized.

GALLERY RODEO INTERNATIONAL
Registrant

Stephen M. Thompson
President, Chief Executive
Officer, Chief Financial
Officer

Date: May 14, 1992

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 1992

OR

[ ] TRANSITIONAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transitional Period From ________________ To ________________

Commission File Number 0-13108

GARDEN STATE BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

New Jersey (State or other jurisdiction of incorporation or organization)	22-2549534 (I.R.S. Employer Identification No.)

West County Line & Bennetts Mills Roads
Jackson, New Jersey 08527
(address of principal executive offices and zip code)

(908)905-2200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at March 31, 1992
Common Stock, no par value	1,723,977

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GARDEN STATE BANCSHARES, INC.
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Part 1 - Financial Information

GARDEN STATE BANCSHARES, INC.
Consolidated Balance Sheets
(In Thousands of Dollars)
(Unaudited)

	March 31 1992	December 31 1991
ASSETS		
Cash & due from banks	$ 10,098	$ 11,453
Interest bearing deposits with banks with maturities of three months or less	734	1,259
Federal funds sold	3,500	1,100
Total Cash and Cash Equivalents	14,332	13,812
Interest bearing deposits with banks with maturities greater than three months	297	1,188
Investment securities: (Note 2)		
U.S. Treasury Securities	6,303	6,303
Obligations of other Government agencies	42,698	40,946
Obligations of state and political subdivisions	7,607	6,749
Other securities	3,515	4,282
	60,123	58,280
Loans	212,365	213,442
Less: Allowance for Possible Loan Losses	4,036	3,727
Loans, Net	208,329	209,715
Bank premises & equipment, Net (Note 3)	9,270	9,431
Other Real Estate Owned	5,926	9,192
Accrued interest receivable and other assets	4,513	4,380
Total assets	$ 302,790	$ 305,998
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand noninterest bearing	$ 36,630	$ 35,708
Demand interest bearing	37,682	40,756
Savings	57,742	53,209
Time	128,320	128,757
Time $100,000 and over	21,226	26,429
Total deposits	281,600	284,859
Other liabilities	2,103	2,286
Total Liabilities	283,703	287,145
Stockholders' Equity:		
Common stock, no par value, Authorized 4,088,091 shares, issued and outstanding 1,723,977 shares	12,302	12,302
Capital surplus	2,095	2,095
Undivided profits	4,690	4,456
Total stockholders' equity	19,087	18,853
Total liabilities & stockholders' equity	$ 302,790	$ 305,998

GARDEN STATE BANCSHARES, INC.
Consolidated Statements of Operations
(In Thousands of Dollars Except for per Share Data)

	(Unaudited) Three Months Ended March 31,	
	1992	1991
Interest Income:		
Interest and fees on loans	$ 4,775	$ 5,359
Interest on investment securities		
Taxable	1,169	887
Exempt from Federal income tax	112	184
Other	29	265
Total interest income	6,085	6,695
Interest Expense:		
Demand-interest bearing & savings	946	856
Time	1,883	2,613
Time $100,000 and over	283	628
Borrowed funds	3	9
Total interest expense	3,115	4,106
Net Interest Income	2,970	2,589
Provision for Loan Losses	510	200
Net interest income after provision for loan losses	2,460	2,389
Noninterest income:		
Service Charges - Deposit Accounts	263	242
Other Non Interest Income	485	200
Total Noninterest income	748	442
Noninterest expense:		
Salaries, Wages & Employee Benefits	1,458	1,263
Occupancy Expense	480	449
Other	981	803
Total Noninterest expense	2,919	2,515
Income Before Income Taxes	289	316
Income Taxes	54	95
Net Income	$ 235	$ 221
Earnings Per Share of Common Stock		
Income per share	$ .14	$ .13
Weighted average shares outstanding	1,723,977	1,709,902

GARDEN STATE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of Dollars)

	(Unaudited) Three Months Ended March 31, 1992	(Unaudited) Three Months Ended March 31, 1991
Cash flows from operating activities:		
Net Income	$ 235	$ 221
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	223	208
Provision for Loan Losses	510	200
Accretion for discount of investments	(70)	(14)
Amortization of premium on investments	19	14
Gain on sale of loans	(200)	-0-
Loss on sale of other real estate owned	42	-0-
(Increase) decrease in income tax receivable	(289)	335
Decrease in income tax payable	-0-	160
Decrease in deferred tax asset	342	-0-
Decrease in deferred loan fees	(9)	(27)
Increase in interest receivable	(58)	(152)
Decrease in interest payable	(154)	(6)
(Increase) in other assets	(130)	(131)
Increase (decrease) in other liabilities	(28)	92
Total adjustments	198	679
Net cash provided by operating activities	433	900
Cash flows from investment activities		
Proceeds from sale investment securities	-0-	-0-
Proceeds from maturities of investment securities	7,029	2,152
Purchase of investment securities	(7,930)	(2,814)
Net (increase) decrease in loans	388	(6,323)
Recovery of loans previously charged off	23	462
Proceeds from sale of other real estate owned	3,898	1,853
Bank premises and equipment expenditures	(62)	(295)
Net cash provided by (used in) investing activities	3,346	(4,965)
Cash flows from financing activities		
Net increase (decrease) in demand deposits and savings accounts	2,381	(3,411)
Net increase (decrease) in time deposits	(5,640)	4,398
Net cash provided by (used in) financing activities	(3,259)	987
Net increase (decrease) in cash and cash equivalents	520	(3,078)
Cash and cash equivalents at beginning of period	13,812	16,024
Cash and cash equivalents at end of period	$ 14,332	$ 12,946
Supplemental disclosure of cash flow information		
Cash paid during year for interest	$3,269	$4,117
Cash paid (received) during year for income taxes (refunds)	$1	$(400)

During the three months ended March 31, 1992 the Bank transferred assets of $632,006 to Other real estate owned and In-substance foreclosure.

Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The accompanying consolidated financial statements as of and for the three months ended March 31, 1992 and 1991 are unaudited and in the opinion of the Corporation reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the unaudited periods. The financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information

Net income per share is computed on the weighted average number of shares of Common Stock assumed outstanding during the period.

2. Investment Securities

The carrying value and approximate market value of investment securities are summarized as follows:

	March 31, 1992	
	Carrying Value	Market Value
U.S. Treasury	$ 6,303	$ 6,515
Obligations of other Government agencies	42,698	43,636
Obligations of State & Political Subdivisions	7,607	7,662
Other Securities	3,515	3,573
	$ 60,123	$ 61,386

	December 31, 1991	
	Carrying Value	Market Value
U.S. Treasury	$ 6,303	$ 6,706
Obligations of other Government agencies	40,946	43,022
Obligation of State & Political Subdivisions	6,749	6,819
Other Securities	4,282	4,385
	$ 58,280	$ 60,932

3. Premises & Equipment

The bank operates from its Corporate Headquarters adjacent to the Main Office in Jackson and seven branch offices, two of which are located in Lakewood Township, one on Kennedy Boulevard and one on Route 70. Two other branches are located in Dover Township, one in the Toms River Mall on Route 37 and one in the Dover Mall Shopping Center at the intersection of Routes 166 and 37. The Bank's Brick office is located on Chambers Bridge Road. The Bank's has a full service branch office in Whiting. The Whiting and Route 70 offices also offer Trust Services. The Bank also has a 2,500 square foot full service branch office in Wall on Route 35.

In April 1989, 2.0 acres of land on Hope Rd. in Jackson Township was purchased as an investment by the Bank, for $181,000 in cash. An additional half acre was subsequently purchased for 1,205 shares of common stock. The Bank is periodically reviewing the site's potential as a future full service branch office.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition

During the first three months of 1992 Total Assets decreased by $3,208,000, or 1.0%, from December 31, 1991. The decrease was primarily attributable to the sale of $3,898,000 of other real estate owned and $3,966,000 of loans, which sales were partially offset by the addition of new loans totalling approximately $3,500,000 and additions to other real estate owned totalling $632,000, and by net increases in the Corporation's cash, cash equivalents and investment securities. The loan sale occurred late in the quarter; in keeping with it's policy of supporting the community, management expects to reinvest the proceeds in the Bank's community through additional lending activity.

A continuing management objective for the year will be the realignment of the Bank's asset mix to place more emphasis on investment securities and within the investment security portfolio to increase the percentage of funds held in obligations of other U.S. Agencies. This objective is being undertaken to reduce the Bank's risk associated with lending secured by real estate in it's current economic environment. In keeping with that objective, the Corporation's investment securities increased $1,843,000, or 3.2%, with obligations of other U.S. agencies increasing by $1,752,000, or 4.3%, since December 31, 1991. Cash and due from banks decreased by $1,355,000, or 11.8%, while federal funds sold increased by $2,400,000, or 218.2%, and interest bearing deposits in banks that mature in three months or less decreased by $525,000 , or 41.7%, as those deposits were reinvested in securities having a higher yield. Interest bearing deposits in banks with maturities over three months decreased by $891,000, or 75.0%, as maturing certificates were reinvested in other earning assets to maximize available yields.

Another management objective is to of reduce the Bank's use of time deposits in general and specifically volatile rate public fund certificates over $100,000 which mature in less than 30 days, in favor of longer term, smaller denomination certificates. From time to time management will elect to use short term borrowings, in place of higher priced deposits, to meet temporary liquidity shortfalls. In keeping with these objectives, time deposits under $100,000, decreased $437,000, or 0.3%, and time deposits over $100,000 decreased by $5,203,000, or 19.7%, in the three month period. As interest rates fell and the difference between time and savings deposits narrowed, the Bank was able to attract a large amount of core-type deposits. During the first quarter of 1992, savings Deposits increased $4,533,000, or 8.5%, noninterest bearing demand deposits increased by $922,000, or 2.6%, and demand interest bearing deposits, which primarily include money market accounts, decreased by $3,074,000, or 7.5%.

Management's Discussion Continued

Management continues to carefully monitor activity in the Bank's lending area. The Bank has a significant portion of its loan portfolio secured by real estate and as with most businesses in the Northeast, continues to feel the effects of the sluggish economy and soft real estate markets. Total nonperforming assets have decreased 6.0% or $1,228,000 since December 31, 1991. Non accruing loans increased by $995,000, or 10.2% from December 31, 1991 to March 31, 1992. At March 31, 1992, non accruing loans amounted to 5.1% of the Bank's loan portfolio. The provision for possible loan losses was $510,000 for the first three months of 1992, compared to $200,000 for the same period in 1991, a 155.0% increase, boosting the allowance for possible loan losses to 1.9% of total loans.

While any credit decision involves a degree of risk, management believes that the current reserves reasonably provide for any future losses that may occur. Management is greatly encouraged by the fact that the Bank transferred $632,000 in nonperforming loans to other real estate owned and in-substance foreclosure during the first quarter of 1992, an 82.5% drop from the $3,420,000 transferred during the first quarter of 1991. These assets were transferred at the lower of carrying value or market value of the underlying collateral. By virtue of the sale of $3,898,000 in other real estate owned described above, offset by the transfer of $632,000 to other real estate owned and in-substance foreclosure, the combined category of other real estate sold and in-substance foreclosure has decreased by $3,266,000, or 35.5%, from December 31, 1991 to March 31, 1992.

The table below presents, on a quarterly basis, loans accounted for on a nonaccrual basis, loans which are contractually past due 90 days or more and non-performing assets. Dollars are presented in thousands.

	Three Month Period Ending In			
	03/92	12/91	09/91	06/91
Nonaccrual loans	$10,742	$9,747	$9,684	$13,122
Accruing Loans 90 Days Past Due	2,617	1,574	2,865	2,349
Nonperforming Loans	13,359	11,321	12,549	15,471
Other real estate owned	4,524	7,153	3,914	1,404
In substance foreclosure	1,402	2,039	3,773	3,975
Nonperforming Assets	$19,285	$20,513	$20,236	$20,850
Percentage of nonaccruing loans to the total loan portfolio:	5.06%	4.57%	4.66%	6.39%
Percentage of nonperforming assets to the total loan portfolio and other real estate owned:	8.83%	9.21%	9.38%	9.90%

Management's Discussion Continued

Percentage of allowance for possible losses to:

Total Loans	1.90%	1.75%	1.74%	2.11%
Nonperforming Loans	30.21%	32.91%	28.80%	28.01%
Nonperforming Assets	20.93%	18.16%	17.86%	20.79%

Results of Operations

The Corporation's earnings for the three months ended March 31, 1992 were $235,000, or $0.14 per share, up 6.3% from $221,000, or $0.13 per share, for the quarter ended March 31, 1991. This earnings improvement resulted from an increase in net interest income during the three months ended March 31, 1992, of $ 381,000, or 14.7%, an increase in total noninterest income of $306,000, or 69.2%, and a decrease in income taxes of $41,000, or 43.2%, offset by an increase in the provision for loan losses of $310,000, or 155.0%, and an increase in total noninterest expense of $404,000, or 16.1%.

The increase in net interest income resulted when total interest income decreased $610,000, or 9.1%, was offset by a decrease in total interest expense of $991,000, or 24.1% during the first quarter of 1992 as compared to the first quarter of 1991. Total interest income declined primarily because volume increase in the loan portfolio was offset by declines in the yield on the portfolio. The loan sale which resulted in the net decrease in the volume of loans occurred late in the quarter; thus the average volume did not decrease. The decrease in interest expense was primarily the result of a decrease of in the volume of time deposits over $100,000, in addition to a drop in rates paid on such deposits, caused interest expense in that category to decrease from $628,000 during the three months ended March 31, 1991 to $283,000 during the same period in 1992. As noted earlier management, is pursuing a policy of reducing the Bank's use of volatile rate public funds which generally mature in less than 30 d2ys. Volume in the Time Deposits under $100,000 decreased slightly while rate decreases caused interest expense in the category to decrease by 27.9%, or $730,000.

Market interest rate reductions over the past three quarters have negatively affected the Bank's interest margins as loans have repriced faster than longer-maturity time deposits. This adverse affect continues to be eliminated as time deposits mature and reprice at lower rates. Management believes that the interest margin will improve as the benefit of the increase in core-type deposits, acquired during the quarter, will result in an overall lower interest expense.

Management's Discussion Continued

The provision represents charges to earnings taken by the Bank to establish an allowance for possible loan losses which, after the impact of net charge-offs, is expected to be sufficient to protect the Bank against future losses in the loan portfolio. The adequacy of the allowance is based on management's evaluation of potential losses in the portfolio after review of specific problem loans and current economic conditions that may affect the borrower's ability to pay. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances based on their judgements available to them at the time of their examination. Management also performs an analysis of the risk generally inherent in the Bank's loan portfolio. Some of the criteria management considers in the risk analysis include the Bank's policies regarding review of delinquencies and timely follow-up on problem loans, borrower diversification by industry and other segments, and the nature of the collateral and/or guarantees securing the Bank's loans.

Noninterest income increased by $306,000, or 69.23%, during the first three months of 1992 compared to the first three months of 1991 due to the gain of $200,000 on the sale of $3,966,000 of loans during the quarter, and an increase of $21,000, or 8.7%, from the Bank's revised service charge structure. Total noninterest expense increased $404,000, or 16.1%, primarily due to increases of 15.4% in Salary, Wages and Employee Benefits from the increased cost of medical benefits. In addition, other noninterest expenses increased 22.2% due to the increased cost of other real estate owned expense and a 25.6% increase in the Bank's FDIC insurance premiums.

Liquidity

The Corporation actively manages its liquidity position under the direction of the Executive Committee of the Board of Directors. Periodic review under prescribed policies and procedures is intended to insure that the Corporation will maintain adequate levels of available funds. At March 31, 1992 the Corporation's primary and secondary liquidity ratios were above the stated policy.

At the end of the reported period, there were no uncertainties that will have a material effect on the Corporation's liquidity, capital resources, or operations; nor is the Corporation aware of any current recommendations by the regulatory authorities which, if they were to be implemented, would have such an effect.

The Corporation had no material commitments for capital expenditures as of March 31, 1992.

Capital

The following are selected ratios for the quarter ended March 31, 1992:

	Bank	Corporation	/---- Minimum	----\
	03/31/92	03/31/92	12/31/91	12/31/92
Risk Based Capital				
Tier 1	8.34%	8.34%	3.625%	4.00%
Total	9.84%	9.84%	7.25%	8.00%
Leverage	6.24%	6.24%	3.00%	3.00%

Part II - Other Information

Item 6(a) - Exhibits

None

Item 6(b) - Reports on Form 8-K

No reports on Form 8-K have been filed by the Registrant during the three months ended March 31, 1992.

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf, by the undersigned thereunto duly authorized.

Garden State BancShares, Inc.

DATE: 05/14/92

Theodore D. Bessler
President and Chief
Executive Officer

DATE: 05-14-92

Vincent N. Tozzi

Vincent N. Tozzi
Vice President
Comptroller

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FORM 10-Q

SECURITES & EXCHANGE COMMISSION

Washington,D.C. 20549

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarter Ended March 31, 1992 Commission File Number 33-33939-D

L.M.Capital,Inc.
(Exact name ~~of registrant as~~ specified in its charter)

Colorado
(State or other jurisdiction of incorporation)

84-1121635
(IRS Employer ID Number)

1675 Larimer St (S) 600 , Denver, Colorado 80202
(Address of principal executive office) (Zip Code)

Registrant's telephone number including area code:(303)632-2215

N/A
(Former name or former address, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practical date:

1,847,800 shares of Common Stock as of March 31, 1992.

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L.M.CAPITAL,INC.

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L.M. CAPITAL, INC.
BALANCE SHEET
AS OF JUNE 30, 1991 AND MARCH 31, 1992
(UNAUDITED)

ASSETS

	June 30, 1991	March 31, 1992
CURRENT ASSETS		
Cash	$74,308	$136,413
Accrued interest receivable	256	256
Total Current Assets	74,564	136,669
NON-CURRENT ASSETS		
Investment in subsidiary (Note 2)	-	30,000
Note receivable (Note 3)	160,000	296,690
Total Non-Current Assets	160,000	326,690
OTHER ASSETS		
Organizational costs, net of accumulated amortization of $21 and $30 respectively	29	20
TOTAL ASSETS	$234,593	$463,379

See Notes to Financials

L.M.CAPITAL,INC.
BALANCE SHEET - CONTINUED

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES

CURRENT LIABILITIES		
Due to shareholder	50	50
Total Current Liabilities	50	50
NON-CURRENT LIABILITIES		
Note payable to shareholder(Note 3)	129,985	377,645
Total Non-Current Liabilities	129,985	377,645
TOTAL LIABILITIES	130,035	377,695
STOCKHOLDER'S EQUITY (Notes 4 & 5)		
Preferred stock, no par value per share, authorized 20,000,000 shares; issued and outstanding 0 shares.		
Common Stock, no par value per share, authorized 100,000,000 shares; issued and outstanding 1,847,800 shares.	$109,429	$109,429
Underwriter's Warrants	120	120
Retained earnings (deficit)	(4,991)	(23,865)
Total Stockholder's Equity	104,558	85,684
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$234,593	$463,379

L.M. CAPITAL, INC.
STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 1992 AND 1991, AND FOR THE NINE MONTHS ENDED MARCH 31, 1992 AND 1991.
(UNAUDITED)

	Three Months Ended March 31		Nine Months Ended March 31	
	1992	1991	1992	1991
Revenues	$ -	-	$ -	-
Operating Expenses:				
Selling, general, & administrative	21,540	3	22,639	9
Income (Loss) from Operations	(21,540)	(3)	(22,639)	(9)
Other Income (Expense):				
Other income	-	-	-	-
Interest income	1,892	235	3,765	235
Interest expense	-	-	-	-
Total Other Income (Expense)	1,892	235	3,765	235
Income (Loss) Before Income Taxes	(19,648)	232	(18,874)	226
Provision for Income Taxes:				
Current	-	-	-	
Deferred	-	-	-	-
Total Provision for Income Taxes	-	-	-	-
Extraordinary Income Net of Tax	-	-	-	123,697
Net Income (Loss)	$(19,648)	(232)	$(18,874)	226
Net Income (Loss) Per Share(Note 1)	(.01)	(-)	(.01)	-
Weighted Ave. Number of Common Shares Outstanding (Note 1)	1,847,800	1,682,000	1,847,800	1,682,000

See Notes to Financials

L.M. CAPITAL, INC.
STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED MARCH 31, 1992 AND 1991
(UNAUDITED)

	Nine Months Ended March 31	
	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (deficit)	$ (18,874)	$ 226
Adjustments to reconcile net loss to net cash provided (used) in operating activities:		
Depreciation and amortization	9	9
Net Cash Provided (Used) by Operating Activities	(18,865)	(235)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in note receivable	(136,690)	-
Investment in subsidiary	(30,000)	-
Net Cash Provided (Used) by Investing Activities	(166,690)	-

-Continued On Following Page-

L.M. CAPITAL, INC.
STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED MARCH 31, 1992 AND 1991
(UNAUDITED)

-Continued From Previous Page-

	Nine Months Ended March 31	
	1992	1991
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	-	102,630
Proceeds from issuance of preferred stock	-	-
Increase in note payable	292,660	-
Decrease in note payable	45,000	-
Net Cash Provided By Financing Activities	247,660	102,630
Net Increase In Cash	62,105	102,865
Cash At The Beginning Of The Period	74,308	672
Cash At The End Of The Period	136,413	103,537

L.M. Capital, Inc.

Notes to Financial Statements

Unaudited

Note 1. Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. All adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim periods have been made and are of a recurring nature unless otherwise disclosed herein. The results of operations for such interim periods are not necessarily indicative of operations for a full year.

Note 2. Subsidiary

L.M.Capital,Inc. (the Company, the Corporation) has purchased a controlling interest in a capital raising firm, the International Capital Connection (ICC). ICC was formed as a Nevada corporation in 1992 to identify and fund business projects in the U.S. and abroad. ICC had no significant operations in the third quarter of the Company's fiscal year.

Note 3. Litigation

During its third fiscal quarter, the Company has taken the position that the terms of its business agreements and note receivable with Granville Holdings Corp. have been violated. The Company as of April, 1992 is in the early stages of litigation against Granville to enforce the terms of those agreements. The eventual outcome of this litigation is unknown.

Note 4. Preferred Stock - Series A

Out of its authorized preferred stock, the Company has designated a "Series A Convertible Preferred Stock" (Series A). The designated number of shares of this Series A is 5,000. One share of Series A may be converted into 200 common shares of the Company at the election of the holder anytime beginning September 1, 1994 (See Note 5 - Subsequent Events). The holders of outstanding shares of Series A shall not be entitled to receive any dividends.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holder of each share of Series A shall be entitled to receive, out of the assets of the Corporation available for distribution to its stockholders, before any payment or distribution shall be made on the common stock, an amount per share equal to $100. If the assets and funds to be distributed among the holders of the Series A shall be insufficient to permit the payment of the full aforesaid preferential amount to such holders, then the entire assets and funds of the Corporation legally available for the distribution shall be distributed among the holders of the Series A in proportion to the aggregate preferential amount of all shares of Series A held by them. After payment has been made to the holders of the Series A, the holders of the common stock shall be entitled to share ratably in the remaining assets on the basis of the number of shares of common stock held by them at the time of such liquidation.

The holder of each share of Series A shall have the right to two hundred (200) votes (see Note 5 - Subsequent Events) for each share standing in his name on the books of the Corporation and shall have the right to vote at all meetings of the stockholders held in respect to any matter upon which the vote of the stockholders is required, including the election of directors. These votes will be aggregated with the votes of the holders of the Corporation's common stock and will not be treated as a separate class.

Note 5 - Subsequent Events

As a subsequent event to these financials, the Corporation on April 27, 1992 forward split its stock 8 to 1, therefore the 1,847,000 common shares outstanding as of March 31, 1992 have become 14,776,000 shares, and the conversion ratio of the Series A Convertible Preferred Stock (see Note 4) has been increased from 200 common shares for each preferred share to 1,600 common shares for each preferred share.

Also in April, the Company authorized the issuance of 4,000 Series A Convertible Preferred Shares to the Company's president, Lionel Mauclaire, in exchange for Mr. Mauclaire's agreement to accept such stock as full payment for all note principal and interest owed by the Company to Mr. Mauclaire. The Company also authorized the issuance to a former director of the Company of 200 Series A Convertible Preferred Shares as compensation for services rendered.

L.M.CAPITAL,INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Management is currently endeavoring to investigate business opportunities presented to it by persons or firms who or which desire to employ the Company's funds in their business or to seek the perceived advantages of a publicly-held corporation.

The Company agreed to loan up to $500,000 to Granville Holdings Corporation and MJL Leasing International, Inc. (Granville & MJL) pursuant to a convertible promissory note dated April 30, 1991. The terms of the note provided that once the Company loaned the total of $500,000 to Granville & MJL the Company could convert its loan into common stock of Granville & MJL no later than April 30, 1992. Based on the current capitalization of Granville & MJL, the Company would acquire a 50% interest in Granville & MJL on conversion of the note into common stock.

On October 14, 1991 the convertible promissory note described above was amended. Under the amendment the note became an open ended promissory note to which the Company would make scheduled additions to Granville & MJL not to exceed $500,000. The rate of interest remained at 10% per annum but if the conversion was not exercised, interest would not begin until the last addition was made on November 15, 1991 with payment due April 30, 1996.

In the third quarter of its fiscal year the Company committed to help start and fund an international capital fund raising and investment banking firm, the International Capital Connection (ICC). The Company owns a majority interest in ICC, and will participate with ICC in identifying, evaluating and funding business projects on an international basis.

As a subsequent event to this filing, the Company commenced legal action against Granville Holdings Corp, MJL Leasing International, Inc., and Laurence J. Mily (collectively referred to hereafter as Granville) by filing suit against those entities in the Court of Common Pleas in Franklin, Ohio in April, 1992. The Company has asserted that Granville has committed breach of contract, fraud, and misrepresentation against the Company with regard to the terms of the Company's business agreements with Granville, taking the position that Granville has refused to honor certain provisions requiring it to transfer stock and/or assets to the Company in a timely manner. The outcome of this litigation at the current time is unknown.

PART II. OTHER INFORMATION

ITEM 1.	LEGAL PROCEEDINGS - See Management's Discussion and Analysis of Financial Condition and Results of Operations.
ITEM 2.	CHANGES IN SECURITIES - See Financial Statements (Notes 4 and 5)
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES - NONE
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS - NONE
ITEM 5.	OTHER INFORMATION - NONE
ITEM 6.	EXHIBITS AND REPORTS ON FORM 8-K - NONE

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

L.M. Capital,Inc.
(Registrant)

Date May 11, 1992

/Lionel Mauclaire /s/
(Signature)
President & Director

✓ Original signatures
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OF 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 1992

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______________ to __________

Commission File Number: 0-12162

MULTI SOLUTIONS, INC.
(exact name of Registrant as specified in its charter)

New Jersey	22-2418056
(state or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification No.)

123 Franklin Corner Road, Lawrenceville, New Jersey 08648
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (609) 896-4100

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceeding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ________

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Class	Outstanding at July 10, 1992
Common Stock, par value $.001 per share	15,111,318

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MULTI SOLUTIONS, INC.

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PART I

ITEM 1. FINANCIAL STATEMENTS

The accompanying financial statements are unaudited for the interim period, but include all adjustments (consisting only of normal recurring accruals) which management considers necessary for the fair presentation of results at April 30, 1992 and 1991.

Moreover, these financial statements do not purport to contain complete disclosure in conformity with generally accepted accounting principles and should be read in conjunction with the Registant's audited financial statements at and for the fiscal year ended January 31, 1992.

The results reflected for the three-month period ended April 30, 1992 are not necessarily indicative of the results for the entire fiscal year ending January 31, 1993.

MULTI SOLUTIONS INC.
CONSOLIDATED BALANCE SHEETS

Assets	April 30, 1992 (Unaudited)	January 31, 1992 (Audited)
Current assets		
Cash and cash equivalents	$ 5,221	$ 1,271
Accounts receivable (net of allowance for doubtful accounts $352,000 and $325,000 respectively.)	464,895	735,998
Prepaid expenses and other current assets	12,302	13,202
Total current assets	482,418	750,471
Fixed assets:		
Research and development equipment	217,018	325,493
Office furniture and other equipment	168,374	259,266
Less: Accumulated depreciation and amortization	(272,311)	(448,781)
Total fixed assets net	113,081	135,978
Other assets:		
Capitalized software development costs,net	831,784	907,393
Other assets	10,603	10,603
Total other assets	842,387	917,996
Total assets	$1,437,886	$1,804,445

Liabilities and Stockholders' Equity

	April 30, 1992	January 31, 1992
Current liabilities:		
Loan payable to bank	$ 145,967	$ 175,000
Accounts payable and accrued expenses	587,651	615,969
Accrued payroll and payroll taxes	202,347	377,595
Deferred income	204,226	191,235
Total liabilities	1,140,191	1,359,799
Stockholders' equity:		
Common stock, authorized 40,000,000 shares $.001 par value, issued and outstanding - 15,111,318 and 15,111,318 respectively	15,111	15,111
Additional paid-in capital	8,378,098	8,378,098
Accumulated deficit	(8,095,514)	(7,948,563)
Total stockholders equity	297,695	444,646
Total liabilities and stockholders' equity	$1,437,886	$1,804,445

See Notes to Financial Statements

MULTI SOLUTIONS INC. & SUBSIDARY
CONSOLIDATED STATEMENT OF OPERATIONS
For the Periods Indicated

	Three Months Ended April 30,	
	1992	1991
	(unaudited)	
Revenues:		
License fees	$ 181,621	$ 232,730
Maintenance fees	100,907	185,672
Consulting and other fees	247,411	128,522
Total Revenues	529,939	546,924
Expenses:		
Software development and technical support	218,246	188,273
Selling and administrative support	454,212	594,439
Total Expenses	672,458	782,712
Loss from Operations	(142,519)	(235,788)
Other Income (Expense):		
Interest Expense	(7,132)	(26,607)
Interest Income	2,700	--
	(4,432)	(26,607)
Net Loss	($146,951)	($262,395)
Number of shares	15,111,318	15,111,318
Net loss per common share	($0.01)	($0.01)

MULTI SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Periods Indicated
(Unaudited)

	Three Months Ended April 30, 1992	1991
Cash flows from operating activities:		
Net Loss	($146,951)	($262,395)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	100,306	82,078
Decrease in accounts receivable	271,103	25,568
Increase (Decrease) in prepaid expenses and other current assets	(900)	11,316
(Decrease) Increase in accounts payable and accrued expenses	(28,318)	3,714
(Decrease) Increase in accrued payroll and payroll taxes	(175,248)	76,190
Increase in deferred income	12,991	84,874
Net cash provided by operating activities	32,983	21,345
Cash flows from investing activities:		
Capital expenditures	--	(8,604)
Increase in capitalized software costs	--	(58,929)
Increase in other assets	--	(10,916)
Net cash used in investing activities	--	(78,449)
Cash flows from financing activities:		
Proceeds from bank loan	--	105,658
Repayment of bank loan	(29,033)	--
Net cash provided by (used in) financing activities	(29,033)	105,658
Net Increase in cash and cash equivalents	3,950	48,554
Cash and cash equivelents at beginning of year	1,271	0
Cash and cash equivalents end of period	$ 5,221	$ 48,554

Supplemental disclosure of cash flow information:
Cash paid during the year for:

Interest	$ 7,132	$ 26,607

See Notes to Financial Statements

MULTI SOLUTIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 1992

NOTE 1 - STOCK GRANTS

During the quarter ended April 30, 1992, no common stock grants were issued.

NOTE 2 - DEFERRED INCOME

Deferred income consists of the following:

Prepaid maintenance fees	$188,065
License fees	16,161
	$204,226

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

Results of Operations

Revenues for the first quarter of fiscal 1993 ended April 30, 1992 were $529,939, as compared to $546,336 for the same period in fiscal 1992. The decrease of $16,397 represents an approximately 3% decline in total revenues. The economic recession continues to be a negative factor toward the consummation of new product sales. Maintenance fee revenue has decreased primarily on account of two major factors: On June 15, 1991 Management Science Corp.(MSA) declined to continue maintenance under the terms of its agreement with the Company. As part of the contract MSA had paid the company approximately $56,000 in maintenance and support fees each fiscal quarter starting in December 1988. Further, the company has experienced a decline in the numbers of customers choosing to purchase continuing maintenance and support, and also an increasing number of customers who have opted not to renew maintenance and support. Consulting revenues increased 52% during the current fiscal quarter ending April 30, 1992 over the same quarter of the prior year. The consulting revenue increase can be attributed to primarily two contracts for consulting services that will be completed during the quarter ending July 31, 1992. While the Company is aggressively attempting to obtain additional consulting service contracts, there is no assurance that such additional contracts can or will be obtained.

Software Development and technical support cost increased during the current fiscal year over the prior year by $29,973 or 14%; this increase can be attributed to the required increased staff remunerations necessary to service and support the requirements of the above mentioned consulting contracts. Selling and administrative costs have declined due to continued staff reductions and continued efforts on the part of management to minimize costs.

Liquidity and Capital Resources

At April 30, 1992, the company had a negative working capital position of ($657,773); and has been experiencing cash flow problems. The Internal Revenue Service has filed a levy against Multi Soft, Inc. for delinquent payroll taxes, related interest and penalties. The State of New Jersey has given Multi Soft, Inc. formal Notice and Demand for payment of delinquent state taxes , related interest and penalties. (see part II item 1.)

The Company has no significant capital expenditure commitments at April 30, 1992 nor does it anticipate any significant capital expenditures in fiscal year 1993.

The company maintains a line of credit with a bank. The terms of the lending agreement originally called for repayment in full at May 31, 1992; However, the Companys' chairman had negotiated an extension to the repayment due date to August 31, 1992.

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*Substantially reflects the operations, liquidity and capital resourses of the registrant's subsidiary, Mult Soft, Inc.

PART II - OTHER INFORMATION

item 1. Legal proceedings

The Company and its' subsidiary are party to legal actions arising in the course of its business. In the opinion of management, the disposition of these actions will not have a material effect on the financial position or results of operations of the Company taken as a whole. (See however Memorex contract page 5 of form 10k for the fiscal year ending January 31, 1992)

IRS PAYROLL TAX LEVY SERVED ON SUBSIDIARY

The Internal Revenue Service has filed a Levy for delinquent payroll taxes, interest and penalties for unpaid amounts due for the 2nd quarter of 1991. The total amount due on this levy after deducting payments not yet credited is approximately $104,000 which continues to be subjected to charges for interest and penalties on the unpaid balance, until paid in full.

STATE OF NEW JERSEY

Notice and Demand for payment of Taxes-The State of New Jersey has demanded payment of delinquent taxes, interest and penalties due from the Companys' subsidiary Multi Soft, Inc. After deducting amounts that Muliti Soft, Inc. believes are not due, the net amount that remains due and payable is approximately $63,500 which continues to be subjected to charges for interest and penalties on the unpaid balance, until paid in full. Multi Soft, Inc. is currently attempting to negotiate a payment plan which will allow for a workout of the amount due, over an extended period of time.

item 2. Changes in Securities

none

item 3. Defaults Upon Senior Securities

none

item 4. Submission of Matters to a Vote of Security Holders

none

item 5. Other information

Effective June 2, 1992 Frank Fish, a Director of the Company resigned his director position.

On June 8, 1992 the Companys' Common Stock (MULT) and the Common Stock of its's subsidiary Multi Soft, Inc. (MSOF) were delisted from NASDAQ because NASDAQ raised its financial initial listing and continuing financial maintenance requirements.

item 6. Exhibits and Reports on Form 8-k

none

SIGNATURES

Pursant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned duly authorized.

Dated: July 20, 1992

MULTI SOLUTIONS, INC.

Charles J. Lombardo
Chief Executive Officer
Chairman of the Board

Charles J. Lombardo
Treasurer

6/9/91]

Technology License Agreement

1. Definitions. As used in this Agreement, the following terms shall have the following respective meanings:

(a) The term "Licensee" shall mean Widow, Inc., a Massachusetts corporation with its principal place of business at 47 A Joy Street, Boston, Massachusetts, or any Subsidiary.

(b) The term "Licensor" shall mean Multi Solutions, Inc., a New Jersey corporation with its principal place of business at 123 Franklin Corner Road, Lawrenceville, New Jersey, or any Subsidiary.

(c) The term "Licensor Programs" shall mean Licensor's proprietary computer program(s) comprising a series of instructions or statements in a human readable, source code form or machine readable, object code form.

(d) The term "Third-Party Programs" shall mean the computer program(s) comprising a series of instructions or statements in human readable source code form or machine readable object code form, if any, licensed by Licensor from one or more third parties are incorporated in or for use in connection with the Licensor Programs.

(e) The term "Licensed Programs" shall mean the Licensor Programs and the Third-Party Programs, collectively, specified on Exhibit A.

(f) The term "Underlying Technology" shall mean all patents, copyrights, trade secrets, mask works, inventions and other intellectual property or proprietary rights embodied in the Licensed Programs.

(g) The term "Documentation" shall mean the user manuals, handbooks, non-executable source code annotations and other written materials relating to the Licensed Programs available to Licensor pursuant to the terms of this Agreement.

(h) The term "Agreement" shall mean the contract for Licensee's license of the Licensed Programs, Documentation and Underlying Technology from Licensor which is formed upon the execution of this document by Licensee and Licensor.

(i) The term "Subsidiary" means a corporation or other legal entity (I) the majority of whose shares or other securities entitled to vote for election of directors (or other managing authority) is now or hereafter controlled by the Licensee either directly or indirectly; or (II) the majority of the equity interest in which is now or hereafter owned or controlled by the Licensee either directly or indirectly; or (III) the majority of the officers of which are appointed by the Board of Directors of the Licensee or by an officer of the Licensee; but any such corporation or other legal entity shall be deemed to be a Subsidiary of the Licensee only so long as such control or such ownership and control exists.

2. Grant of Licenses.

(a) Subject to the terms and conditions set forth in this Agreement, Licensor grants to Licensee and each Subsidiary, and Licensee and its Subsidiaries accept:

(i) an exclusive (subject to Section 4 below), non-transferable worldwide license (the "Initial License") with the right to grant limited sublicenses, (A) to use, copy, modify, operate, process and distribute the Licensed Programs in source code form; and (B) to use, copy, modify, operate, process and distribute the Documentation;

(ii) an exclusive (subject to Section 4 below), non-transferable worldwide license to distribute the Licensed Programs to limited sublicensees for the limited sublicensees' own internal business purposes; and

(iii) an exclusive (subject to Section 4 below), non-transferable worldwide license, with the right to grant sublicenses, to make, use, copy, modify and distribute products incorporating the Underlying Technology.

(b) The termination or expiration of this Agreement shall not terminate or affect limited sublicenses previously granted by Licensee in accordance with this Agreement.

(c) Licensor grants Licensee the right to prepare, and distribute in source code, object code or any other form in which it may appear, derivative works based on Licensed Programs, Documentation or Underlying Technology. Licensor claims no ownership interest in any portion of any modification or derivative work which is not part of the Licensed Programs or Documentation. Licensee shall own all rights in modifications and derivative works prepared at its request which are not part of the Licensed Programs or Documentation.

(d) Each portion of the Licensed Programs and Documentation shall include the intellectual property notice or notices appearing in or on the corresponding portions of such materials as delivered by Licensor hereunder. Licensor retains the sole discretion to determine what notices are appropriate to protect its intellectual property and that held by third parties so long as the notices designated by Licensor for use pursuant to this Agreement are neither more numerous, nor more prominent than those used by the Licensor for the Licensed Programs, and relate to intellectual property protection.

(e) Licensee agrees that each sublicense granted under this license shall contain restrictions no less restrictive than contained in this Section 2 and Section 7 of this Agreement.

3. Delivery. Licensor will furnish the Licensee the first copy of the Licensed Programs and Documentation in the form identified on Exhibit A upon execution of this Agreement.

4. License Fees and Exclusivity Payments.

(a) In consideration of the licenses granted pursuant to this Agreement, the Licensee shall pay to Licensor the license fee set forth on Exhibit B to this Agreement, in the manner provided on Exhibit B. Upon the Licensee's payment of the license fee specified in Exhibit B, the licenses granted hereunder to the Licensee shall become fully paid.

(b) In consideration of an annual payment by Licensee to Licensor to maintain exclusivity of the license granted hereunder as set forth on Exhibit B to this Agreement, in the manner provided in Exhibit B, (the "Exclusivity Payment") Licensor shall refrain from granting any further licenses to the Licensed Programs.

(c) If Licensee elects not to make the annual Exclusivity Payment to Licensor at the time and in the manner provided in Exhibit B, Licensor must make a written request for payment of the Exclusivity Payment and give Licensee written notice, in the manner set forth in Section 10(f) of this Agreement, of Licensor's intent to grant further non-exclusive licenses of the Licensed Program. If Licensee has not responded within 60 days of such notice and request for payment, Licensor may grant further non-exclusive licenses in the Licensed Programs and Licensee shall retain a non-exclusive license in the Licensed Programs.

(d) Until Licensee pays all license fees and Exclusivity Payments specified in Exhibit B, Licensor shall be entitled, not more than once annually, at Licensor's sole expense, to retain a certified public accountant to review the Licensee's books and records solely for purposes of verifying the accuracy of the license fees and Exclusivity Payments paid to Licensor. Alternatively, Licensor, at its request, may elect to review Licensee's annual audit by Licensee's certified public accountant for the sole purpose of verifying the accuracy of the license fees and Exclusivity Payments paid to the Licensor. Such review shall be conducted during Licensee's normal business hours and with at least 30 days' advance notice to Licensee. Prompt adjustment shall be made by the proper party to compensate for any errors or omissions disclosed by such review. Information obtained during such review shall be maintained in confidence by such accountant and shall not be disclosed to Licensor except as is reasonably necessary for Licensor to enforce the provisions of this Section 4.

5. Licensor's Representations. Licensor represents and warrants to the Licensee and to each sublicensee of the Licensee as follows:

(a) Licensor has good and valid title to, and is the exclusive owner of, the Licensed Programs, Documentation and Underlying Technology, to the extent that the Underlying Technology is embodied in the Licensor Programs.

(b) Licensor has a valid license to use the Third-Party Programs and to grant the licenses granted to Licensee herein with respect to the Third-Party Programs and Underlying Technology, to the extent that the Underlying Technology is embodied in the Third-Party Programs.

(c) Licensor has all necessary rights, power and authority to enter into and perform this Agreement and to grant the licenses granted to Licensee herein.

(d) This Agreement has been duly authorized, executed and delivered by Licensor and constitutes a legal, valid and binding obligation of Licensor.

6. Indemnification.

(a) Licensor shall indemnify and hold harmless Licensee against any and all claims, expenses, judgments, liabilities, damage or losses, finally adjudicated by a court of competent jurisdiction, including attorneys' fees and court costs, and if requested by Licensee shall defend all actions and proceedings at Licensor's sole expense, arising from (i) any breach of this Agreement by Licensor or (ii) any infringement or alleged infringement by the Licensed Programs, Documentation or Underlying Technology of any United States or foreign patent, copyright, trade secret, mask work, invention or other intellectual property right or any proprietary, contract or other right of any third party.

(b) The indemnification referred to in Section 6(a) shall be limited to claims, actions, or activities, occurring within the two year period immediately following the first customer shipment by Licensee of a completed offering based on the Licensed Programs. The indemnification referred to in Section 6(a) shall also be limited to the amounts due hereunder during such two year period resulting from sublicenses granted within the country wherein such action or proceeding is brought.

(c) the provisions of Section 6(a) notwithstanding, Licensor shall not have any liability under this Section 6 to the extent that any infringement or claim thereof is based upon (i) uses of the Licensed Programs, Documentation or Underlying Technology in combination with equipment or software not supplied by Licensor where the Licensed Programs, Documentation or Underlying Technology would not itself be infringing, or (ii) modifications of the Licensed Programs, Documentation or Underlying Technology by Licensee where the Licensed Programs, Documentation or Underlying Technology, if not modified by Licensee, would not be infringing.

7. Export. Licensee agrees that it will comply with all applicable laws, rules and regulations relating to the export of the technical data when exporting a Licensed Programs, Documentation or Underlying Technology.

8. Insolvency. The parties acknowledge and agree that, pursuant to Title 11, United States Code, Section 365(n), if any party becomes the subject of a proceeding under Title 7 or 11, each party shall have all available rights under such Section 365(n), including the right, if the trustee, debtor-in-possession or other appropriate authority rejects this Agreement, to elect under such statute to retain its rights to the license of the Licensed Programs and to delivery of materials embodying the Licensed Programs and/or its other rights under this Agreement, as the case may be, as such rights existed immediately prior to the commencement of the Title 7 or 11 proceeding.

/..

9. Term.

(a) Unless sooner terminated, pursuant to (b) below, the term of this Agreement shall run from the date of execution of this Agreement to June 30, 2001. Notwithstanding the foregoing, if Licensee has maintained Exclusivity Payments to Licensor up to and through June 30, 2001 and otherwise complied with the terms of this Agreement, then, upon payment to the Licensor of the sum described in Section 3 of EXHIBIT B, the license granted pursuant to Section 2 hereof shall be deemed to be irrevocable.

(b) This Agreement may be terminated:

(i) Upon written consent of both parties; or

(ii) By Licensee or Licensor, immediately upon written notice, if the other party materially breaches any of the material provisions of this Agreement and such party fails to cure such breach within 60 days after it has received written notice from the other party describing each such breach.

(c) The provisions of Sections 2(b), 2(d), 4, 5, 6, 7, 8(d), 10(a) and 10(g) hereof shall survive the termination of this Agreement.

(d) In the event Licensee discontinues the sublicensing of the Licensed Programs, Documentation or derivatives thereof, for any reason, all sublicenses previously granted by Licensee shall remain in force provided that the sublicensee continues to fulfill all of the obligations of this Agreement and provided that the sublicensee pays directly to the Licensor any royalties or other payments due the Licensor from Licensee.

10. Warranty. Licensor warrants for a period of ninety (90) days from furnishing a Licensed Program to Licensee that any medium on which portions of a Licensed Program are furnished will be free under normal use from defects in materials, workmanship or recording. If such a defect appears within such warranty period Licensee may return the defective medium for replacement without charge. Replacement is Licensee's sole remedy with respect to such a defect. Licensor also warrants that it is empowered to grant the rights granted herein. LICENSOR AND OTHER DEVELOPERS MAKE NO OTHER REPRESENTATIONS OR WARRANTIES, EXPRESSLY OR IMPLIED. BY WAY OF EXAMPLE BUT NOT OF LIMITATION, LICENSOR MAKES NO REPRESENTATIONS OR WARRANTIES OF MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR THAT THE USE OF ANY LICENSED PROGRAM, DOCUMENTATION OR UNDERLYING TECHNOLOGY WILL NOT INFRINGE ANY PATENT, COPYRIGHT OR TRADEMARK.

11. Miscellaneous.

(a) This Agreement shall be governed by and interpreted, construed and enforced as a sealed instrument in accordance with the laws of the Commonwealth of Massachusetts.

(b) In the event that any provision of this Agreement is held by a court of competent jurisdiction to be legally ineffective or unenforceable, the validity of the remaining provisions shall not be affected.

(c) No right is granted herein to use any identifying mark (such as, but not limited to, trade names, trademarks, trade devices, service marks or symbols, and abbreviations, contractions or simulations thereof) owned by, or used to identify any product or service of Licensor or a corporate affiliate thereof, in the name of the Licensed Program, Documentation or Underlying Technology offered or furnished to customers by Licensee, except for such identifying marks as set forth on EXHIBIT A. However, Licensee may state in advertising, publicity, packaging, labeling or otherwise that a Licensed Program or Documentation is derived from a Licensed Program or Documentation under license from Licensor. Licensee agrees not to use a name or trademark for a Licensed Program that is confusingly similar to a name or trademark used by Licensor (or a corporate affiliate thereof).

(d) Any notice or communication required or permitted under this Agreement shall be in writing and shall be deemed received when personally delivered or five days after being sent via first-class mail, postage prepaid, to a party at the address specified herein or at such other address as either party may from time to time designate to the other.

(e) The terms of this Agreement shall not be disclosed to any third party without the express consent of both Licensor and Licensee.

12. This Agreement is the complete and exclusive statement of the contract between Licensee and Licensor with respect to the subject matter hereof. No waiver, consent, modification, amendment or change of the terms of this Agreement shall be binding unless in writing and signed by Licensee and Licensor.

EXECUTED and effective as of 8/13, 1991.

LICENSEE: WIDOW, INC.

By: Ron R. Kriger

Title: President

LICENSOR: MULTI SOLUTIONS, INC

By: Charles J. Lombardo

Title: C.E.O.

EXHIBIT A

1. Licensed Programs (S1 System Components):

(a) Base operating system - the nucleus

- files, devices, terminals, disks, tapes, memory, tasks, arithmetic
- signals, networking, multiuser support, strings

(b) All system support and generation software

- system generator
- system table generators

(c) All supporting software - editors, compilers, assemblers, linkers

- Fullscreen editor and other converted editors
- SL, C, FORTRAN, COBOL, Pascal, BASIC - compilers
- 8080, 80 x 86, and 680 x 0 assemblers
- disassemblers and debuggers for above processors
- machine-independent link editor

(d) All utility software

- backup, calculate, clean, compare, decrypt, destroy, display, encrypt
- erase, import, initialize, list, logon, logoff, mail, order
- record, remotelogon, rename, repair, restore, set, sort, talk
- transfer, type, undestroy, unerase and as well as the other in-house software developed for internal support such as

- font editor, menu compiler, IL processors and support programs
- make, touch, tree compiler, SL to C translator, C to SL translator

2. Documentation

- All existing types of documentation on the technology requested by the Licensee
    - internal architectural and maintenance documentation
    - external reference documentation
    - users' guide
    - other types of documentation

(b) DOCUMENTATION

- All documentation shall be supplied in an electronic format.
- Printed copies of all requested documentation should be provided with the initial delivery set.

3. Identifying Marks

(a) "S1 Operating System"

EXHIBIT B

License Fees, Exclusivity Payments and Irrevocable License Terms

1. License. Licensee shall pay Licensor a $20,000 license fee for a license to the Licensed Programs upon the execution of this Agreement, such license to be effective from the date of execution of this Agreement until June 30, 2001.

2. Exclusivity Payments. From the date of execution of this Agreement until June 30, 1993, Licensee shall make annual Exclusivity Payments to Licensor. Such Exclusivity Payments shall be computed at a rate of 2% of gross sales in excess of $500,000 of the Licensed Programs, computed and paid on an annual basis, payable on June 30th of each year. From July 1, 1993 to June 30, 2001, Exclusivity Payments shall be the greater of 2% of gross sales of the Licensed Products or $10,000, computed and paid on an annual basis, payable on June 30th of each year.

3. Irrevocable License. If, as of July 1, 2001, but not before, Licensee has made the appropriate Exclusivity Payments and otherwise complied with the terms of this Agreement, then Licensee may, upon the payment of $50,000 to Licensor, acquire an Irrevocable License to the Licensed Programs, and Licensee thereafter shall have no further obligation to make further Exclusivity Payments to Licensor.

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1992

OR

__ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________

Commission file number 0-13538

NATIONAL AFFILIATED CORPORATION
(Exact name of registrant as specified in its charter)

Louisiana	72-0947819
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1500 Lee Street, Suite A, P.O. Box 12190, Alexandria, LA 71315
(Address of principal executive offices) (Zip Code)

(318) 473-4355
(Registrant's telephone number, including area code)

PROCESSED BY
MAY 16 1992

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Q-Data Corp. - St. Petersburg, FL

ormer address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

APPLICABLE ONLY TO ISSUERS INVOLVED
IN BANKRUPTCY PROCEEDINGS DURING
THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes __ No __

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Registrant had 3,271,968 Voting Common Shares outstanding on March 31, 1992.

Page 1 of 10

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Financial Statements are attached beginning at page 4.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Management's Discussion and Analysis of Financial Condition and Results of Operations is attached beginning at page 8.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

a) None
b) None
c) None
d) Not Applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit Index

Exhibit Table Number	Description of Exhibit	Sequential Numberings Location
11	Statement of Computation of Per Share Earnings	Page 10

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL AFFILIATED CORPORATION
(Registrant)

Date May 15, 1992

By: Richard E. Peck
Treasurer and Chief Financial Officer

NATIONAL AFFILIATED CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
MARCH 31, 1992 AND DECEMBER 31, 1991

	1992 (Unaudited)	1991
ASSETS:		
Cash	$ 257,586	$ 253,640
Invested assets:		
Fixed maturities	4,606,983	4,474,175
Equity securities	56,000	79,000
Other long-term investments	268,113	289,803
Certificates of deposit and time deposits	2,731,863	2,959,075
Investment in and advances to TNT	135,014	135,014
Accrued investment income	99,823	99,595
Finance notes receivable - net	774,684	773,377
Investment in direct financing leases - net	58,616	64,851
Other amounts receivable:		
Premiums due	66,725	41,141
Agents' balances (net of allowance for uncollectible accounts of $90,000 in 1992 and 1991)	79,672	60,710
Other	56,683	16,593
Property - net	364,948	383,626
Deferred policy acquisition costs	2,388,964	2,550,694
Other assets	41,828	41,646
TOTAL	$ 11,987,502	$ 12,222,940
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Policy benefit reserves	$ 3,721,862	$ 3,762,777
Policy claims	394,597	396,077
Unearned premiums	29,125	36,477
Dividends left on deposit	1,294,152	1,339,325
Advance premium deposits	350,966	357,128
Other policyholders' funds	25,136	32,092
Accounts payable and accruals	247,940	207,181
Long-term debt	245,539	268,720
Total liabilities	6,309,317	6,399,777
Stockholders' equity:		
Voting common shares, no par; 14,000,000 shares authorized; 3,453,507 shares issued	5,842,317	5,842,317
Additional paid-in capital	154,500	154,500
Net unrealized investment losses	(51,340)	(46,998)
Retained earnings	465,208	605,844
Subtotal	6,410,685	6,555,663
Less treasury stock - at cost (181,539 shares)	732,500	732,500
Total stockholders' equity	5,678,185	5,823,163
TOTAL	$ 11,987,502	$ 12,222,940

See notes to consolidated financial statements.

NATIONAL AFFILIATED CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 1992 AND 1991

	1992	1991
REVENUES:		
Insurance premiums	$ 653,742	$ 952,242
Net investment income	131,245	122,404
Finance company interest and fees	62,799	83,850
Equity in income and management fees from TNT (Note 3)	45	1,880
Other income	10,764	7,557
Total revenues	858,595	1,167,933
EXPENSES:		
Increase (decrease) in policy benefit reserves	(54,373)	69,625
Claims and other benefits	169,919	186,863
Policyholders' dividends	5,091	196,868
Commission expense	140,752	299,469
Depreciation and amortization	26,971	30,262
Interest expense	33,194	40,070
Salaries, wages and payroll taxes	199,770	232,213
Other operating expenses	316,177	277,959
Decrease in deferred policy acquisition costs	161,730	11,400
Total expenses	999,231	1,344,729
(LOSS) INCOME BEFORE INCOME TAXES	(140,636)	(176,796)
PROVISION FOR INCOME TAXES	--	--
NET (LOSS) INCOME	$ (140,636)	$ (176,796)
EARNINGS PER COMMON SHARE	$ (.04)	$ (.05)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	3,271,968	3,271,968

See notes to consolidated financial statements.

NATIONAL AFFILIATED CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 1992 AND 1991

	1992	1991
Cash flows from operating activities:		
Net loss	$ (140,636)	$ (176,796)
Non-cash and non-operating items:		
Net realized capital (gains) losses	(15,610)	1,738
Undistributed earnings of investee		(1,880)
Provision for uncollectible accounts receivable	2,000	7,100
Depreciation and amortization	26,971	30,262
Change in assets and liabilities:		
Deferred policy acquisition costs	161,730	11,400
Policy benefit reserves	(48,267)	86,931
Policy claims	(1,480)	100,482
Other	(32,281)	11,998
Net cash (used in) provided from operating activities	(47,573)	71,235
Cash flows from investing activities:		
Acquisitions of:		
Invested assets	(292,516)	(237,608)
Finance notes receivable	(482,435)	(691,512)
Property	(8,570)	(7,328)
Dispositions of:		
Invested assets	442,878	143,087
Finance notes receivable	479,128	442,164
Direct financing leases	6,235	5,424
Property	277	--
Agents' balances - net	(18,962)	222,803
Other	--	6,189
Net cash provided from (used in) investing activities	126,035	(116,781)
Cash flows from financing activities:		
(Withdrawals) deposits of dividends and advance premiums - net	(51,335)	36,442
Payments of debt	(23,181)	(21,850
Net cash (used in) provided from financing activities	(74,516)	14,592
Net increase (decrease) in cash	3,946	(30,954
Cash at beginning of year	253,640	147,908
Cash at end of period	$ 257,586	$ 116,954
Supplemental cash flows disclosures:		
Interest paid	$ 33,194	$ 40,070
Income taxes paid	$ 2,000	$ 4,500

See notes to consolidated financial statements.

NATIONAL AFFILIATED CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 1992

(UNAUDITED)

NOTE 1 - REPRESENTATION BY MANAGEMENT

The unaudited consolidated financial statements included herein reflect all adjustments which are, in the opinion of management, necessary to a fair presentation of the consolidated financial position, results of operations and cash flows for the interim periods presented.

The results of operations for the three month period ended March 31, 1992 are not necessarily indicative of the results to be expected for the entire year 1992.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

National Affiliated Corporation (the "Company") had a net loss for the three months ended March 31 of $140,692 in 1992 compared to $176,796 in 1991. Net loss per common share was $(.04) in 1992 and $(.05) in 1991.

Total assets at March 31, 1992 and December 31, 1991 were $11,987,502 and $12,222,940, respectively. Approximately 73% of total assets at March 31, 1992 were comprised of cash, invested assets, and finance notes receivable.

The primary sources of funds for insurance operations are from premiums and investment income. These funds have been and are anticipated to be sufficient to provide for expenses of servicing the insurance in force.

The primary source of funds for finance operations is from collections on notes receivable.

In February 1992 the Financial Accounting Standards Board issued Statement of Accounting Standards No. 109, entitled Accounting for Income Taxes ("SFAS 109"). SFAS 109 must be adopted by the Company in fiscal 1993. Management believes that adoption of SFAS 109 will not have a material effect upon the financial position or results of operations of the Company.

Insurance Operations

A net loss from insurance operations for the three months ended March 31, 1992 was due to amortization of deferred acquisition costs in the amount of $161,730, as compared to $11,040 for the three months ended March 31, 1991. The end results were a first quarter loss of $138,981 for 1992 as compared to $220,379 for 1991.

Premium Revenue. Premium revenue decreased to $653,742 in 1992 from $952,242 in 1991. The Company continues to incur start-up costs for new life and health insurance products and marketing programs and has developed an administrative organization capable of handling much more business than was produced this year. Consequently, revenues from new products were insufficient to cover related costs. Management expects new products to be profitable in 1992.

Finance and Cellular Operations

Net premium finance notes receivable were $774,684 at March 31, 1992 compared to $926,996 at March 31, 1991. Net loss for the three months ended March 31 was $4,641 compared to net income of $33,889 in 1991.

One of the Company's wholly-owned subsidiaries owns a 35% interest in and is general partner of Travel Network Telephone ("TNT"), a limited partnership organized to apply for non-wireline licenses in various cellular telephone markets. TNT has no ownership interests in markets other than Monroe, Louisiana. The two cells of the Monroe system are now in operation.

EXHIBIT 11

NATIONAL AFFILIATED CORPORATION AND SUBSIDIARIES

STATEMENT OF COMPUTATION OF PER SHARE EARNINGS

The weighted average number of shares outstanding for the three months ended March 31, 1992 was computed as follows:

Shares outstanding, beginning and end of period	3,271,968

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FORM 10-Q

RECD S.E.C.
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED APRIL 5, 1992

OR

_ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM_____TO______

Commission File Number 0–14980

NELLCOR INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**94-2789249**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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Microfilmed by
Q-Data Corp. - St. Petersburg, FL

25495 Whitesell Street
Hayward, California 94545
(Address of principal executive offices)
(Zip Code)

Telephone: (510) 887-5858
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes _X_ No ____

Number of shares of Common Stock, $.001 par value, outstanding as of April 5, 1992 was 16,035,226.

PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

NELLCOR INCORPORATED CONSOLIDATED BALANCE SHEET
(In thousands)

ASSETS	April 5, 1992 (Unaudited)	July 7, 1991
Current assets:		
Cash and cash equivalents	$ 16,348	$ 15,623
Marketable securities	59,388	52,710
Accounts receivable, net of allowance for doubtful accounts of $1,067 ($914 in July 1991)	29,095	22,968
Inventories (Note)	18,902	20,058
Deferred income taxes and other current assets	6,584	5,395
Total current assets	130,317	116,754
Property and equipment, at cost	52,731	43,606
Accumulated depreciation and amortization	(27,943)	(23,618)
Net property and equipment	24,788	19,988
Other assets and goodwill, net of accumulated amortization	21,823	6,094
	$176,928	$142,836

LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 10,627	$ 8,090
Accrued liabilities:		
Payroll and payroll related	7,172	5,432
Warranty	2,251	1,530
Other	7,521	2,058
Income taxes payable	3,726	3,443
Total current liabilities	31,297	20,553
Deferred income taxes	703	899
Stockholders' equity:		
Common stock, par value	16	16
Additional paid-in capital	70,767	62,261
Retained earnings	74,747	60,359
Accumulated translation adjustment	146	122
Unearned compensation and notes receivable from stockholders	(748)	(1,374)
Total stockholders' equity	144,928	121,384
	$176,928	$142,836

NELLCOR INCORPORATED CONSOLIDATED STATEMENT OF INCOME
(In thousands, except per share amounts, unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	April 5, 1992	April 7, 1991	April 5, 1992	April 7, 1991
Net revenue	$52,920	$41,628	$141,988	$116,437
Cost of goods sold	20,413	18,661	58,392	53,130
Gross profit	32,507	22,967	83,596	63,307
Operating expenses:				
Research, development and engineering	6,004	3,486	16,228	10,560
Selling, general and administrative	17,515	12,645	46,880	37,067
Restructuring charge	—	—	—	1,500
Income from operations	8,988	6,836	20,488	14,180
Interest and other, net	716	881	2,717	2,634
Income before income taxes	9,704	7,717	23,205	16,814
Provision for income taxes	3,687	2,856	8,817	6,222
Net income	$ 6,017	$ 4,861	$ 14,388	$ 10,592
Net income per common and common equivalent share	$ 0.36	$ 0.31	$ 0.89	$ 0.69
Common and common equivalent shares used in the calculation of income per share	16,613	15,565	16,240	15,387

See accompanying note.

NELLCOR INCORPORATED CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands, unaudited)

	For the Nine Months Ended	
	April 5, 1992	April 7, 1991
Cash flows from operating activities:		
Net income	$ 14,388	$ 10,592
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	7,140	4,389
Unearned compensation	549	549
Deferred income taxes	(196)	10
Increases (decreases) in cash flows, net of effects from purchase of companies, as a result of changes in:		
Accounts receivable	(4,907)	332
Inventories	1,948	(368)
Other current assets	(1,038)	(161)
Other assets	(902)	79
Accounts payable	2,500	(2,375)
Accrued liabilities	6,097	(82)
Income taxes payable	303	2,251
Cash provided by operating activities	25,882	15,216
Cash flows from investing activities:		
Capital expenditures	(10,139)	(3,397)
Cash used to purchase marketable securities	(76,948)	(57,253)
Proceeds from sales and maturities of marketable securities	70,270	46,826
Payments for purchases of companies, net of cash acquired	(17,122)	—
Acquisition of marketing rights	—	(1,000)
Cash used in investing activities	(33,939)	(14,824)
Cash flows from financing activities:		
Proceeds from the sale of common stock and related tax benefits, net of repurchases, and stockholder notes receivable	8,583	2,984
Cash provided by financing activities	8,583	2,984
Effect of exchange rate changes on cash balances	199	84
Increase in cash and cash equivalents	725	3,460
Cash and cash equivalents at the beginning of the period	15,623	10,771
Cash and cash equivalents at the end of the period	$ 16,348	$ 14,231

See accompanying note.

NELLCOR INCORPORATED NOTE TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, unaudited)

General. The consolidated financial statements reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position and results of operations as of the end of and for the periods indicated.

The accompanying interim consolidated financial statements should be read in conjunction with the financial statements and related notes included in the Company's 1991 Annual Report to Stockholders. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the Securities and Exchange Commission rules and regulations. The Company believes the information included in the report on Form 10-Q, when read in conjunction with the Consolidated Financial Statements and related Notes thereto included in the Company's 1991 Annual Report to Stockholders, is not misleading.

The results of operations for the three-month and nine-month periods ended April 5, 1992 are not necessarily indicative of operating results for the full fiscal year.

Inventories. Inventories are stated at the lower of cost (first-in, first-out) or market (net realizable value). Interim and year-end inventory balances were as follows (in thousands):

	April 5, 1992	July 7, 1991 (Audited)
Raw materials	$ 9,507	$ 9,668
Work-in-process	3,779	4,184
Finished goods	5,616	6,206
	$ 18,902	$ 20,058

Statement of Cash Flows. The Company paid income taxes of approximately $6,820 and $3,696 in the nine months ended April 5, 1992 and April 7, 1991, respectively.

Acquisitions. In September 1991 the Company acquired the outstanding stock of EdenTec Corporation (EdenTec) for $8.9 million in cash. EdenTec manufactures infant and adult sleep apnea monitors and diagnostic systems. The consolidated Income Statement of the Company for the first nine months of fiscal 1992 includes the results of operations for EdenTec from the date of acquisition, September 12, 1991. The transaction was accounted for as a purchase and the excess of the purchase price over the fair value of the net assets of EdenTec was recorded as goodwill which is to be amortized on a straight line basis over seven years. In connection with the acquisition, certain former principal shareholders of EdenTec will receive $1.1 million under employment contracts, payable in installments and accrued ratably through fiscal 1994, contingent upon their continued employment and attainment of certain performance objectives.

Also in September 1991, the Company acquired substantially all the assets of Fenem, Inc., a producer of a disposable noninvasive CO2 detection device, for $8.8 million in cash. The transaction was accounted for as a purchase and the excess of the purchase price over the fair value of the assets of Fenem was recorded as goodwill which is to be amortized on a straight line basis over eight years.

If these acquisitions had been completed as of the beginning of the first quarter of fiscal 1991, the Company estimates that pro forma net revenue in the third quarter of fiscal 1992 would have been unchanged and net revenue in the third quarter of fiscal 1991 would have been approximately $43.0 million. Pro forma net revenue would have been approximately $143.1 million in the first nine months of fiscal 1992 and approximately $121.0 million in the first nine months of fiscal 1991. Net income would have been unchanged in the third quarter of fiscal 1992 and approximately $4.0 million, $0.26 per share, in the third quarter of fiscal 1991. Net income for the first nine months of fiscal 1992 would have been approximately $13.7 million, $0.85 per share, and net income for the first nine months of fiscal 1991 would have been approximately $7.8 million, $0.51 per share.

Supplemental cash flow disclosure related to the acquisition of EdenTec is as follows:

Fair value of assets acquired	$ 9,779
Acquired research, development and engineering expenses	299
Liabilities assumed	(1,152)
Cash paid to acquire EdenTec	$ 8,926

Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

Results of Operations - Year-to-date period and third quarter ended April 5, 1992 compared with the year-to-date period and third quarter ended April 7, 1991.

The Company's net revenue for the third quarter of fiscal 1992 increased to $52.9 million from $41.6 million in the third quarter of fiscal 1991 and increased to $142.0 million in the first nine months of fiscal 1992 from $116.4 million in the same period last year. The increase in net revenue in both the third quarter and the first nine months of fiscal 1992 over the same periods in fiscal 1991 principally reflects increased sales of patient-dedicated sensors, which have resulted from continued growth in the installed base of the Company's monitors and the products of the Company's licensees and OEM customers. Oximeter revenue increased in the third quarter and first nine months of fiscal 1992 compared to the same periods a year ago due principally to higher unit sales of OEM modules and sales of the N-180 oximeter, a product not commercially available in fiscal 1991, partially offset by lower unit sales of the N-200. Revenue from gas products decreased in both the third quarter and first nine months of fiscal 1992 from the comparable periods last year principally as a result of lower sales volumes of the N-1000 multi-function monitor and the N-2500 anesthesia safety monitor in both North America and Europe.

International revenue increased to $9.3 million in the third quarter of fiscal 1992 from $7.9 million in the prior year third quarter and increased to $23.9 million in the first nine months of fiscal 1992 from $22.3 million in the same period of fiscal 1991, due primarily to increased sales in Canada, the Pacific Rim and Europe. Sales by EdenTec Corporation into the home healthcare market and sales of *EASY CAP*™, the CO_2 detection product acquired from Fenem, Inc. also contributed to the increase in consolidated net revenue.

Gross profit as a percentage of net revenue increased to 61 percent in the third quarter of fiscal 1992 from 55 percent in the third quarter of fiscal 1991. The increase in gross margin was primarily due to the favorable impact of the continued shift in product mix to patient-dedicated sensors, product cost improvements, and improved manufacturing overhead absorption. These favorable margin impacts were partially offset by the amortization of expenses resulting from the acquisition of the assets of Fenem, Inc. For the first nine months of fiscal 1992 gross profit increased to 59 percent of net revenue from 54 percent in the same period a year ago principally reflecting the favorable impact of the continued shift in product mix to patient-dedicated sensors and product cost improvements partially offset by expenses resulting from the acquisition of the assets of Fenem, Inc.

Research, development and engineering expenses were 11 percent of net revenue in both the third quarter and the first nine months of fiscal 1992 compared to eight percent in the third quarter of fiscal 1991 and nine percent in the first nine months of fiscal 1991. Research, development and engineering expenses increased between the comparable periods due principally to increased spending on the development of network-based and fetal pulse oximetry products and expenses resulting from the acquisition of EdenTec Corporation.

Selling, general and administrative expenses as a percentage of net revenue were 33 percent in the third quarter and first nine months of fiscal 1992, 30 percent in the third quarter of fiscal 1991 and 32 percent in the first nine months of fiscal 1991. The increase in both the third quarter and first nine months of fiscal 1992 was due principally to operating and amortization expenses resulting from the acquisition of EdenTec Corporation, expenses associated with the organization of the company into divisions and investment in the Company's business computer systems.

Net income was $6.0 million for the third quarter and $14.4 million for the first nine months of fiscal 1992 compared to $4.9 million for the third quarter and $10.6 million for the first nine months of fiscal 1991. Net income for the third quarter of fiscal 1992 reflects amortization and other expenses related to the acquisitions of EdenTec Corporation and the assets of Fenem, Inc. of approximately $661,000, net of taxes. For the first nine months of fiscal 1992 these expenses were approximately $1.5 million, net of taxes. Net income for the first nine months of fiscal 1991 includes a restructuring charge which reduced net income by approximately $945,000, net of taxes, recorded in the second quarter of fiscal 1991.

Liquidity and Capital Resources

The Company met its liquidity and capital requirements from internally generated cash during the first nine months of fiscal 1992. At April 5, 1992, the Company had cash, cash equivalents and marketable securities amounting to approximately $75.7 million compared to $68.3 million at the end of fiscal 1991.

Operating activities provided positive cash flows during the first nine months of fiscal 1992. Depreciation and amortization expense was a significant non-cash operating expense during this period. The acquisitions of EdenTec Corporation and the assets of Fenem, Inc. for $17.1 million and capital expenditures were the principal uses of cash in investment activities since the fiscal 1991 year end. Proceeds from the exercise of stock options were the principal source of cash from financing activities during the first nine months of fiscal 1992.

PART II. OTHER INFORMATION

Item 6. ***Exhibits and Reports on Form 8-K.***

a) Exhibits.

11.1 Statement of computation of net income per share.

19.1 Second Amendment to Lease Agreement between Registrant and Britannia Developments, Inc., filed as Exhibit 10.8 to Form 10-K for the year ended July 7, 1991.

b) Reports on Form 8-K.
No reports on Form 8-K were filed during the quarter ended April 5, 1992.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be filed on its behalf by the undersigned thereunto duly authorized.

NELLCOR INCORPORATED

Dated 5/18/92

By M P. Downey
Michael P. Downey
Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description	Location in Form 10-Q
11.1	Statement of computation of net income per share	12
19.1	Second Amendment to Lease Agreement between Registrant and Britannia Developments, Inc., filed as Exhibit 10.8 to Form 10-K for the year ended July 7, 1991.	13

Exhibit 11.1

NELLCOR INCORPORATED STATEMENT OF COMPUTATION OF NET INCOME PER SHARE

(In thousands, except per share amounts, unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	April 5, 1992	April 7, 1991	April 5, 1992	April 7, 1991
Computation of common and common equivalent shares outstanding:				
Common stock	15,990	15,222	15,755	15,096
Common stock equivalents	623	343	485	291
Common and common equivalent shares used in the calculation of income per share	16,613	15,565	16,240	15,387
Net income	$ 6,017	$ 4,861	$14,388	$10,592
Net income per common and common equivalent share	$ 0.36	$ 0.31	$ 0.89	$ 0.69

EXHIBIT 19.1

SECOND AMENDMENT TO
BRITANNIA BUSINESS CENTER AT HACIENDA
BUILD-TO-SUIT LEASE
AND WORKLETTER AGREEMENT

THIS SECOND AMENDMENT is dated for reference purposes as of the 10th day of April, 1992 by and between Britannia Developments, Inc., a California corporation ("Lessor") and Nellcor Incorporated, a Delaware corporation ("Lessee"), amending the Build-To-Suit Lease dated April 18, 1991 between Lessor and Lessee, as amended (the "Lease"). Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Lease.

WHEREAS, Lessor and Lessee desire to amend the Lease to modify one existing condition and add an additional condition to the effectiveness of the Lease.

IT IS AGREED THAT the Lease is hereby amended as follows:

1. Section 47(g) is amended to read as follows: "Commencement by Lessor of the construction of improvements by October 31, 1992."

2. A Section 47(h) is hereby added to the Lease as follows: "Repayment in full by October 31, 1992 of that certain term note made by Britannia to The Prudential Insurance Company of America in the principal amount of $1,352,930.00 and dated substantially concurrently with this Amendment."

IN WITNESS WHEREOF, the undersigned have executed this Second Amendment to Lease as of the date first set forth above.

Lessor

BRITANNIA DEVELOPMENTS, INC.,
a California corporation

By: ______________________

Dated: April 10, 1992

Lessee

NELLCOR INCORPORATED,
a Delaware corporation

By: ______________________
Michael P. Downey,
Vice President and
Chief Financial
Officer

By: Ted H Toch
Ted H. Toch, VP & General Manag

April 10, 1992

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 10-Q

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarter Ended March 31, 1992

Commission File Number 0-3578

Piedmont Management Company Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of corporation or organization)	13-2612123 (IRS Employer Identification Number)

PROCESSED BY
MAY 18 1992

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

80 Maiden Lane, New York, N.Y.
10038
(Address of principal executive offices)
(Zip Code)

Registrant's telephone number, including area code: (212)

39

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO _

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Common Stock - $.50 Par Value
Authorized 12,000,000 Shares
2,526,459 Shares Issued and Outstanding
(Includes 265,000 Shares of Treasury Stock)

Class B Stock - $.50 Par Value
Authorized 6,000,000 Shares
2,657,694 Shares Issued and Outstanding

Part I. Financial Information

Piedmont Management Company Inc. and Subsidiaries
Consolidated Statements of Operations

Three Months Ended March 31, 1992 and 1991 (Unaudited)

	1992	1991
Reinsurance Operations:		
Net premiums earned	$32,816,771	$ 23,046,824
Net investment income	5,309,873	5,528,797
Realized capital gains (losses)	1,025,015	(201,345)
Total revenues	39,151,659	28,374,276
Losses and loss adjustment expenses	23,737,126	19,871,004
Acquisition and other underwriting expenses	13,476,943	8,020,399
	37,214,069	27,891,403
Reinsurance operating income	1,937,590	482,873
Investment Advisory Operations:		
Advisory, counseling fees and other income	3,938,636	3,794,825
Service and marketing costs	3,660,088	3,607,118
Investment advisory operating income	278,548	187,707
Parent Company:		
Investment and other income	127,011	154,559
Interest expense	196,851	341,389
Other corporate expenses	402,027	661,976
Parent company operating loss	(471,867)	(848,806)
Income (loss) before equity in net earnings of investees and provision (credit) for income taxes	1,744,271	(178,226)
Equity in net earnings of investees	679,265	592,491
	2,423,536	414,265
Provision (credit) for income taxes:		
Current	858,505	598,502
Deferred	(478,822)	(663,212)
	379,683	(64,710)
Net income	$ 2,043,853	$ 478,975
Earnings per common share (Exhibit 1):		
Net income	$.38	$.09

See accompanying Notes to Financial Statements.

Piedmont Management Company Inc. and Subsidiaries
Consolidated Balance Sheets

	3/31/92 *(Unaudited)*	12/31/91 *(Audited)*
Assets:		
Investments:		
Fixed maturities	$230,643,230	$179,807,584
Equity securities	56,235,530	46,824,094
Short-term investments	49,603,762	110,737,563
Total investments	336,482,522	337,369,241
Cash	12,270,391	16,855,794
Investment in and advances to investee companies	19,097,932	18,415,504
Accrued interest and dividends receivable	4,304,907	3,531,366
Premiums receivable and reinsurance recoverable	44.660,181	46,834,125
Deferred policy acquisition costs	9,650,000	9,772,000
Deferred income taxes	10,484,607	8,791,386
Other assets	32,334,277	32,314,001
Total assets	$469,284,817	$473,883,417
Liabilities and Stockholders' Equity:		
Outstanding losses and loss expenses	$288,043,430	$284,446,043
Unearned premiums	38,271,679	41,303,004
Loan payable	13,475,000	14,000,000
Expenses, taxes and other liabilities	14,180,676	15,734,609
Total liabilities	353,970,785	355,483,656
Stockholders' equity:		
Capital stock:		
Preferred stock, $1 par value, authorized 2,000,000 shares; cumulative convertible Series A shares issued: 1992, 249,261; 1991, 249,408	249,261	249,408
Common stock, $.50 par value, authorized 12,000,000 shares; shares issued: 1992, 2,526,459; 1991, 2,524,965	1,263,229	1,262,482
Class B stock, $.50 par value, authorized 6,000,000 shares; shares issued: 1992, 2,657,694; 1991, 2,657,694	1,328,847	1,328,847
Paid-in capital	27,465,948	27,457,249
Unrealized appreciation on investments and foreign translation adjustment, net of deferred income taxes	42,464	5,083,162
Retained earnings	86,686,783	84,741,113
Less cost of treasury stock (266,000 shares common, 53,000 shares preferred)	(1,722,500)	(1,722,500)
Total stockholders' equity	115,314,032	118,399,761
Commitments and contingencies		
Total liabilities and stockholders' equity	$469,284,817	$473,883,417

See accompanying Notes to Financial Statements

Piedmont Management Company Inc. and Subsidiaries
Consolidated Statements of Cash Flows

Three Months Ended March 31, 1992 and 1991 (Unaudited)

	1992	1991
Cash flows from operating activities:		
Net income	$ 2,043,853	$ 478,975
Adjustments to reconcile net income to net cash from operating activities:		
Realized capital (gains) losses	(1,025,015)	201,345
Outstanding losses and loss expenses	3,597,387	(3,396,184)
Unearned premiums	(3,031,325)	458,224
Premiums receivable and reinsurance recoverable	2,173,944	(3,771,277)
Deferred acquisition costs	122,000	628,000
Amortization of bond premium, net	116,925	121,992
Equity in net earnings of investees	(679,265)	(592,491)
Other liabilities	(1,991,616)	(8,587,384)
Income taxes payable	858,505	656,979
Deferred income taxes	(478,822)	(663,212)
Accrued interest and dividends	(773,541)	(1,448,728)
Other assets	(963,915)	(2,523,246)
Effect of foreign translation	-	32,048
Total cash flows from operating activities	(30,885)	(18,404,959)
Cash flows from investing activities:		
Net sales and maturities of short term investments	34,702,883	8,060,830
Sales/maturities of fixed maturities and equity securities	45,551,415	40,793,188
Purchases of fixed maturities and equity securities	(84,293,116)	(34,954,301)
Effect of foreign translation	-	(323,031)
Total cash flows from investing activities	(4,038,818)	13,576,686
Cash flows from financing activities:		
Repayment of loans	(525,000)	-
Proceeds from exercise of stock options	9,300	-
Total cash flows from financing activities	(515,700)	-
Effect of foreign translation on cash	-	290,983
Net decrease in cash	(4,585,403)	(4,537,290)
Cash balance, beginning of year	16,855,794	16,813,649
Cash balance, end of period	$12,270,391	$12,276,359

	1992	1991
Supplemental cash flow disclosure:		
Income taxes paid	-	-
Interest paid	$240,115	$352,500

See accompanying Notes to Financial Statements.

Piedmont Management Company Inc. and Subsidiaries
Notes to Financial Statements

Three Months Ended March 31, 1992 and 1991 (Unaudited)

---

(1) Basis of Presentation:

The interim financial information presented is unaudited. In the opinion of Company management, all adjustments necessary to present fairly the consolidated financial position and the results of operations for the interim periods have been made. Certain 1991 amounts have been reclassified to conform with the 1992 presentations. The financial statements should be read in conjunction with the financial statements and related notes in the Company's 1991 Annual Report on Form 10K.

(2) Accounting Change:

During 1990, The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106 (SFAS No. 106) requiring employers to accrue the cost of retiree health and post retirement benefits other than pensions by the date the employee is fully eligible to receive the benefits. The Company's policy was to expense these costs as they were paid. In 1991, management completed a study of the impact of the required change in accounting for its post retirement benefits and, accordingly, the Company adopted SFAS No. 106 effective in the first quarter of 1992. The effect of this accounting change is not material to the results of operations or financial position of the Company.

(3) Reclassification and Exchange of Class B Stock:

In March 1992, the Company announced that its Board of Directors approved a plan to reclassify its outstanding Class B Stock, currently having ten votes per share, as Common Stock, having one vote per share. The plan is subject to approval by stockholders who will be voting on the proposed share reclassification at the Annual Meeting of Stockholders, scheduled for May 28, 1992. The reclassification will not affect the Company's book value, net income or earnings per share.

(4) Accounting for Income Taxes:

In February 1992, The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS No. 109). Although adoption of this new accounting standard is not required before the first quarter of 1993, its provisions will require, among other things, use of the liability method in accounting for income taxes as well as adjustments to deferred taxes for the effect of changes in enacted tax rates.

At present, management has not determined the effect implementation of SFAS No. 109 will have on its financial statements.

Piedmont Management Company Inc. and Subsidiaries

Management's Discussion and Analysis of the Consolidated Statements of Operations and Financial Condition

Three Months Ended March 31, 1992 and 1991

Consolidated Results of Operations

Net income for the period was $2.0 million, $0.38 per share, as compared to $479,000, $0.09 per share, for the first quarter of 1991. A discussion and analysis of results of operations on a segment basis follows.

Reinsurance Operations

Reinsurance pre-tax operating income improved to $1.9 million in 1992 from $483,000 a year earlier. The 1992 results include capital gains realized on sales of securities in the amount of $1.0 million in comparison to realized capital losses in the amount of $201,000 in 1991.

Overall reinsurance industry conditions continued soft. Property/casualty rates on balance have remained level to slightly ahead of last year. There is an excess of capacity in the facultative market while, in treaty, pricing was flat with recent periods, with no real signs of tightening in terms and conditions.

At The Reinsurance Corporation of New York (RECO) net premiums earned increased 42% compared to a year ago. This is essentially the result of new and renewal treaties written in recent periods covering primarily non-standard personal auto business. The combined ratio in the first quarter, computed on a generally accepted accounting principles basis, was 113.4%, down from 121.0% in the first quarter of 1991. This favorable change in underwriting results is mainly attributed to the increase in business written this year coupled with less severe property loss activity in comparison to 1991.

Net investment income in 1992 was $5.3 million, a narrow decline from $5.5 million earned a year ago, reflecting decreasing interest rates during the past year.

Investment Advisory Operations

Investment advisory pre-tax income improved to $279,000 in the first quarter of 1992 compared with $188,000 a year ago. In general, management fees earned and operating expenses for Lexington Management Corporation were on par with 1991. Total assets under management were level with year end 1991. The main contributing factor to the improved investment advisory results was the reduction in the combined operating loss for Lexington Capital Management and Lexington Plan Administrators.

Parent Company and Investees

The pre-tax loss for the parent company also declined, to $472,000 from $849,000 a year ago. Although lower interest rates and a lower base of invested assets resulted in reduced investment income, corporate expenses also declined significantly, mainly due to a decreased level of compensation expenses. Interest expense was also lower, down 42%, due to falling rates and a $2.5 million reduction in the amount of the bank loan payable.

Equity in net earnings of investees was $679,000 for 1992, compared to $592,000 for 1991. In the current year, RECO's equity in the net income of Continental National Corporation, a new equity investee, was $257,000. In 1991, RECO's equity in net income of United Reinsurance Corporation (acquired by RECO at the end of 1991 but formerly an equity affiliate) was $173,000. The Company's equity in net income of the Navigators Group, Inc. was $422,000. This compared favorably with the prior year's share of net income of $419,000.

The Company's provision for income taxes in each period was based upon the alternative minimum tax regulation. An increase in current taxable income, which reflects the increase in operating income in general, resulted in a higher current tax expense for the 1992 period. This expense was offset somewhat by a deferred tax benefit.

Liquidity and Financial Condition

The discussion of "Liquidity and Financial Condition" in the Company's Annual Report on Form 10-K for 1991 is incorporated herein by reference and should be read in conjunction with the following.

The Company's financial condition remains strong. Total assets on March 31, 1992 were $469.3 million, of which $348.8 million (74%) were invested assets and cash. The portfolio of fixed maturities, carried at $230.6 million, is mainly comprised of U.S. Government bonds and high quality (rated AA) corporate issues. The average maturity of these bonds was 6.3 years. There are no real estate investments or bonds rated below investment grade in the portfolio. Two bonds remain in default and are non-income producing. The combined carrying value of these bonds was 4.4% of invested assets.

As reported in the consolidated statement of cash flows, total cash flows from operating activities in 1992 improved in comparison to 1991. The increase in premiums written and reduction in paid loss activity from the prior year accounts for a major portion of the improvement. The Company expects to collect $10.6 million in recoveries from loss portfolio transfers executed in prior years during the second quarter. This will further enhance cash flow from operations. Management believes internally generated cash will continue to be sufficient to meet the Company's ongoing cash requirements.

With reference to cash flows from investing activities, the Company trades a portion of its bond portfolio to maximize total after-tax investment return. During 1992, proceeds from the sales of short term investments were reinvested into intermediate term bonds as well as common equity securities.

With respect to cash flows from financing activities, the Company repaid $525,000 of its bank loan during 1992. Under the terms of the loan agreement, $2.1 million is expected to be repaid by the end of 1992.

Consolidated stockholders' equity on March 31, 1992 was $115.3 million, down $3.1 million from the 1991 year end, and after a $5.0 million reduction for the change in market values of fixed maturities and equity securities.

Exhibit to Part I

"Computation of Earnings Per Common Share and Common Equivalent Share for Three Months Ended March 31, 1992 and 1991."

Part II. Other Information

Piedmont Management Company Inc. and Subsidiaries

Three Months Ended March 31, 1992 and 1991

Item 6. Exhibits and Reports on Form 8-K

On January 8, 1992, a report on Form 8-K was filed incorporating the Company's announcement of two acquisitions by its reinsurance subsidiary, The Reinsurance Corporation of New York.

Other items under Part II have been omitted since they are either not required or are not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PIEDMONT MANAGEMENT COMPANY INC.

Date: May 15, 1992

By ______________________
Robert M. DeMichele, President
(Chief Executive Officer)

Date: May 15, 1992

By ______________________
Peter J. Palenzona, Senior Vice President
Finance and Administration
(Chief Financial Officer)

Piedmont Management Company Inc. and Subsidiaries
Computation of Earnings Per Common Share and Common Equivalent Share

Three Months Ended March 31, 1992 and 1991 (Unaudited)

	1992	1991
(A) Earnings per common share and common equivalent share:		
Number of common shares:		
Issued (weighted average)	5,183,669	5,158,140
Less treasury stock	(265,000)	(265,000)
Outstanding for period	4,918,669	4,893,140
Common equivalent shares (two common for each preferred share)	392,506	414,563
Average stock options outstanding (net of repurchased shares under the treasury stock method)	33,061	1,432
	5,344,236	5,309,135
Net income	$ 2,043,853	$ 478,975
Earnings per common share and common equivalent share	$.38	$.09
(B) Earnings per common share assuming full dilution:		
Number of common shares:		
Outstanding for period	4,918,669	4,893,140
Common equivalent shares (two common for each preferred share)	392,506	414,563
	5,311,175	5,307,703
Average stock options outstanding (net of repurchased shares under the treasury stock method)	44,124	2,241
	5,355,299	5,309,944
Net income	$ 2,043,853	$ 478,975
Earnings per common share and common equivalent share	$.38	$.09

NOTE: Earnings per common share and common equivalent share in 1992 and 1991 were computed based upon the weighted average number of common and class B shares outstanding assuming full conversion of common stock equivalents.

Exhibit I

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15 (d) of The Securities and Exchange Act of 1934

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 5, 1992

__ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission file number 0-17980

RALLY'S, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	62-1210077
(State or other jurisdiction of)	(IRS Employer ID Number)

10002 Shelbyville Road, Suite 150, Louisville, KY 40223

Registrant's telephone number, including area code: 502 / 245-8900

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class - Common stock, Par value $.10 per share

Outstanding at May 15, 1992 - 7,549,532, of which 120,000 shares are held in escrow pending performance of certain obligations by stockholders.

BEST COPY AVAILABLE

RALLY'S, INC. AND SUBSIDIARIES

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RALLY'S, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF APRIL 5, 1992 AND DECEMBER 29, 1991

	April 5, 1992 (Unaudited)	December 29, 1991
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 3,363,107	$ 3,757,746
Royalties receivable, net of a reserve for doubtful accounts of $387,433 and $423,689 at April 5, 1992 and December 29, 1991, respectively	744,115	1,340,050
Accounts receivable, net of a reserve for doubtful accounts of $8,263 at April 5, 1992 and December 29, 1991, respectively	294,913	551,578
Inventory, at lower of cost or market	372,791	413,278
Accounts and notes receivable from related parties (Note 3)	1,003,700	607,921
Current portion of other notes receivable	162,800	162,870
Prepaid expenses and other current assets	923,462	798,930
Total current assets	6,864,888	7,632,373
Net property and equipment, at historical cost	45,416,421	43,778,177
Restricted certificate of deposit	264,000	260,848
Notes receivable from related parties, less current portion	493,940	563,212
Other notes receivable	567,111	605,741
Organization and development costs, less accumulated amortization of $194,963 and $185,518 at April 5, 1992 and December 29, 1991, respectively	82,580	91,039
Other assets, less accumulated amortization	4,518,260	4,294,652
Total assets	$ 58,207,200	$ 57,206,042
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,757,148	$ 2,564,520
Accrued liabilities	3,135,195	3,496,843
Current maturities of long-term debt and obligations under capital leases	1,188,147	1,188,147
Accrued income taxes	1,228,864	1,432,396
Unearned franchise fees	55,000	10,000
Total current liabilities	8,364,354	8,691,906
Deferred income taxes	850,922	850,165
Long-term debt, less current maturities	6,028,386	6,295,280
Obligations under capital leases, less current maturities	3,660,658	3,685,816
Unearned area development fees	880,000	1,055,000
Total liabilities	19,784,320	20,578,167
Commitments and contingencies (Notes 4 and 5)		
Stockholders' equity:		
Common stock, $.10 par value, 25,000,000 shares authorized, 7,695,120 and 7,665,180 shares issued at at April 5, 1992 and December 29, 1991, respectively	769,512	766,518
Additional paid-in capital	26,793,631	26,538,180
Less: Treasury shares, 159,257 shares at April 5, 1992 and December 29, 1991	(2,009,667)	(2,009,667)
Contingent shares, 120,000 shares at April 5, 1992 and December 29, 1991 (Note 2)	(870,000)	(870,000)
Retained earnings	13,739,404	12,202,844
Total stockholders' equity	38,422,880	36,627,875
Total liabilities and stockholders' equity	$ 58,207,200	$ 57,206,042

The accompanying notes are an integral part of these consolidated balance sheets.

RALLY'S, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	14 Weeks Ended April 5, 1992	13 Weeks Ended March 31, 1991
REVENUES:		
Restaurant sales	$23,720,526	$17,625,324
Royalty fees	986,440	1,155,196
Area development fees	220,000	750,000
Franchise fees	62,500	140,000
Total revenues	24,989,466	19,670,520
COSTS AND EXPENSES:		
Restaurant costs of sales	8,502,382	7,016,056
Restaurant operating expenses exclusive of depreciation and amortization and other operating expenses shown separately below (Note 1)	9,111,446	6,828,291
General and administrative expenses (Note 1)	2,594,247	2,266,432
Advertising and promotion expenses	1,125,529	923,568
Depreciation and amortization	1,069,436	932,966
Total costs and expenses	22,403,040	17,967,313
Income from operations	2,586,426	1,703,207
OTHER INCOME (EXPENSE):		
Interest income	69,280	17,766
Interest expense	(258,764)	(75,385)
Other	29,738	88,938
Total other income (expense)	(159,746)	31,319
Income before income taxes	2,426,680	1,734,526
PROVISION FOR INCOME TAXES	890,120	624,427
Net income	$ 1,536,560	$ 1,110,099
Earnings per share	$ .20	$ .15
Weighted average shares outstanding	7,878,176	7,355,918

The accompanying notes are an integral part of these consolidated financial statements.

RALLY'S, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (NOTE 2)
(Unaudited)

	14 Weeks Ended April 5, 1992	13 Weeks Ended March 31, 1991
CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES:		
Net income	$ 1,536,560	$ 1,110,099
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,069,436	932,966
Provision for losses on receivables	65,880	57,812
Stock grant	14,438	15,411
(Gain) loss on sale/retirement of assets	---	(11,844)
Minority interest	---	(9,162)
Changes in assets and liabilities net of effects from business combinations:		
(Increase) decrease in assets:		
Receivables	766,720	(134,464)
Inventory	40,487	(12,773)
Prepaid expenses and other current assets	(227,893)	(285,799)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(169,020)	(157,335)
Accrued income taxes	(203,532)	305,332
Unearned franchise and area development fees	(110,000)	(760,000)
Net cash provided from operating activities	2,783,076	1,050,243
CASH FLOWS (USED IN) INVESTING ACTIVITIES:		
Accounts and notes receivable from related parties	(307,807)	(49,369)
Capital expenditures	(2,468,458)	(2,759,519)
Increase in other assets	(349,268)	(232,323)
Payment for restricted certificates of deposit	(3,152)	(250,000)
Acquisition of businesses, net of cash acquired	---	(152,351)
Net cash used in investing activities	(3,128,685)	(3,443,562)
CASH FLOWS PROVIDED FROM (USED IN) FINANCING ACTIVITIES:		
Payment of organization and development costs	(985)	(34,945)
Net borrowings under line of credit	---	950,000
Principal payments of debt	(266,894)	(82,739)
Proceeds from the issuance of common stock, net of costs of issuance	244,007	1,615
Principal payments on capital lease obligations	(25,158)	(31,274)
Dividends paid to former shareholders of Maxies prior to its acquisition	---	(3,647)
Net cash provided from (used in) financing activities	(49,030)	799,010
Net (decrease) in cash	(394,639)	(1,594,309)
CASH AND CASH EQUIVALENTS, beginning of period	3,757,746	1,659,125
CASH AND CASH EQUIVALENTS, end of period	$ 3,363,107	$ 64,816

The accompanying notes are an integral part of these consolidated financial statements.

RALLY'S, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Financial Statement Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, it is suggested that the accompanying financial statements be read in conjunction with the financial statements and notes thereto included elsewhere in this prospectus. Except as disclosed herein, there has been no material change in the information disclosed in the notes to the audited consolidated financial statements for the fiscal year ended December 29, 1991.

The consolidated financial statements include Rally's, Inc. (Rally's) and its wholly owned subsidiaries, Rally's of Ohio, Inc., Self Service Drive-Thru, Inc., Rally's Finance, Inc. and Rally's Management, Inc. On June 28, 1991, Rally's acquired Maxie's of America, Inc. (Maxie's), a chain of nineteen (eight company owned and eleven franchised) double drive-through hamburger restaurants operating in three states, in a transaction accounted for as a pooling of interests. Previously reported amounts for the 13 weeks ended March 31, 1991, have been restated for the acquisition of Maxie's. A reconciliation of such amounts has not been presented as the impact was not significant. All significant intercompany accounts and transactions have been eliminated.

Supervision and training expenses, in the amount of $701,823, previously reported as restaurant operating expenses for the 13 weeks ended March 31, 1991, have been reclassified to general and administrative expenses in the accompanying consolidated statements of operations to conform with the Company's current reporting practices. Such reclassifications had no effect on previously reported net income.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments considered necessary to present fairly the Company's financial position as of April 5, 1992, and the results of its operations and cash flows for the 14 weeks ended April 5, 1992, and the 13 weeks ended March 31, 1991. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the full year.

2. Supplemental Disclosures of Cash Flow Information

	14 Weeks Ended April 5, 1992	13 Weeks Ended March 31, 1991
Interest paid (net of amount capitalized)	$ 99,235	$ 87,385
Income taxes paid	363,580	319,095
Capital lease obligations incurred	---	1,738,642

The Company issued 400,000 shares of common stock valued at $2.9 million in connection with its acquisition of Snapps Drive-Thru, Inc. (Snapps) in January, 1991 of which 120,000 shares have been placed in escrow pending performance of certain obligations by the former Snapps stockholders. No liabilities were assumed in this acquisition.

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

3. Accounts Receivable from Related Parties

Rally's National Advertising Fund is a not-for-profit association organized for the purpose of promoting and providing advertising for the chain. The advertising co-op is a separate entity and is not included in the accompanying financial statements.

At April 5, 1992, the Company had advanced Rally's National Advertising Fund $400,000. Interest is being charged on the advance at prime plus 1/2%, which is Rally's borrowing rate. As of April 28, 1992, $100,000 plus interest had been repaid.

4. Commitments and Contingencies

(a) *Litigation*

On March 23, 1989, the Company filed suit against International Shortstop, Inc. ("Shortstop"), and several of Shortstop's franchisees in the Federal District Court for the Eastern District of Arkansas. The Company alleged that Shortstop's buildings infringed on the proprietary color and design of Rally's buildings. On November 30, 1990, the Court ruled in favor of Shortstop. The Company appealed this decision to the United States Court of Appeals for the Eighth Circuit which affirmed the trial court's decision on October 29, 1991.

On July 17, 1989, Shortstop and others filed suit against the Company claiming that the Company's management was aware of an alleged agreement by Alvin C. Copeland to purchase Shortstop and that the Company's suit against Shortstop was filed solely to interfere with that transaction. Shortstop is seeking damages in excess of $12,000,000, along with prejudgment interest and exemplary damages in amounts not less than $24,000,000. The Company had commenced the steps to bring its action against Shortstop before the date it is alleged to have become aware of such agreement between Shortstop and Copeland. On September 17, 1990, the District Court entered summary judgment in favor of Rally's, dismissing all claims against the Company. Shortstop filed an appeal to the United States Court of Appeals for the Fifth Circuit which on August 22, 1991, vacated the grant of Summary Judgment and remanded the case to the trial court for further consideration. Rally's filed a Petition for Certiorari to the United States Supreme Court and in January, 1992, the Supreme Court refused to hear the case. Rally's believes that the allegations of Shortstop are without merit and that the outcome of the litigation will not have a material adverse effect on the Company's operations or financial condition.

(b) *Snapps Acquisition*

The Company has agreed to pay to the former owners of Snapps Drive-Thru, Inc. $100,000 each for restaurants 59 through 75 to be developed by them. Further, the Company has agreed to give the former owners of Snapps Drive-Thru, Inc., an option to purchase 10,000 shares of the Company's common stock at $18 per share for each of restaurants 76 through 100 to be developed by them. Based on current expansion plans for this franchisee, the Company expects that payments made under this agreement will not exceed $500,000 in 1992.

5. Subsequent Event

On March 26, 1992, the Company signed a letter of intent to acquire Zipps Drive-Thru, Inc. for $12 million subject to certain adjustments. Zipps is headquartered in St. Louis, Missouri, and franchises double drive-thru quick service hamburger restaurants. There are a total of 46 Zipps restaurants operating in 5 states, of which 29 are company owned and 17 are franchised.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's revenues are derived primarily from Company-owned restaurant sales and royalty fees from franchisees. The Company also receives revenues from the award of exclusive rights to develop Rally's restaurants in certain geographic areas (area development fees) and the award of licenses to use the Rally's brand and confidential operating system (franchise fees). Certain expenses (restaurant cost of sales, restaurant operating expenses, depreciation and amortization, and advertising and promotion) relate directly to Company-owned restaurants, while general and administrative expenses relate to both Company-owned restaurants and franchise operations. The Company's revenues and expenses are affected by the number and timing of the opening of additional restaurants. Revenues from the Company's franchising activities are also affected by the level of franchised restaurant sales and franchise development activity and, in the first quarter of 1992, were affected by a special advertising and royalty reduction program which ended in the first quarter.

On July 28, 1990, the Company changed its fiscal year to the 52-53 week year ending on the Sunday nearest to December 31. Information has been restated for all periods presented to include the restaurants owned by Maxie's of America, Inc., which were acquired on June 28, 1991 in a transaction accounted for as a pooling of interests. The following table sets forth the percentage relationship to total revenues, unless otherwise indicated, of certain items included in the Company's consolidated statements of income and operating data for the periods indicated:

	14 Weeks Ended April 5, 1992	13 Weeks Ended March 31, 1991
Revenues		
Restaurant sales	94.9%	89.6%
Royalty fees	3.9	5.9
Area development fees	.9	3.8
Franchise fees	.3	.7
	100.0%	100.0%
Costs and expenses		
Restaurant cost of sales (1)	35.8%	39.8%
Restaurant operating expenses (1)	38.4	38.7
General and administrative expenses	10.4	11.5
Advertising and promotion expenses (1)	4.7	5.2
Depreciation and amortization (1)	4.5	5.3
Income from operations	10.3	8.7
Net interest expense (income)	.6	(.2)
Income before income taxes	9.7	8.9
Net income	6.1%	5.6%
Number of restaurants		
Restaurants open at the beginning of period	333	275
Company restaurants added, net during period	1	1
Franchised restaurants added, net during period	4	16
Total restaurants added, net during period	5	17
Total restaurants open at end of period	338	292

---

(1) As a percentage of restaurant sales.

Results of Operations

Three Months Ended April 5, 1992 Compared With Three Months Ended March 31, 1991.

The first quarter of 1992 included 14 weeks of operations as contrasted to 13 weeks in the prior year. The Company's complete 1992 fiscal year will cover 53 weeks as it does approximately every six years when the Company's normal 52-53 week fiscal year cycle ends. The additional week in the first quarter of 1992 contributed, in part, to variations between periods. Other explanations for changes between periods are discussed below. The Company estimates the impact of the additional week on revenues, net income and earnings per share in the current quarter was less than approximately $2.1 million, $128,000 and $.02 per share, respectively.

Systemwide sales grew 41.5% for the first quarter of 1992 to $66.2 million compared with $46.8 million a year ago. This increase was the result of additional restaurants being open in 1992 compared with 1991 and higher average restaurant sales in the first quarter of 1992 than in the same period a year ago. Systemwide average restaurant sales for the first quarter of 1992 were approximately 8.0% higher than in the prior year.

Total revenue increased 27.0% from $19.7 million for 1991 to $25.0 million for 1992. Company-owned restaurant sales grew 34.7% to $23.7 million in 1992 compared to $17.6 million in 1991. This increase was the result of more restaurants being open in the current period than a year ago, and by an increase of 1.0% in Company-owned average restaurant sales. Company-owned restaurant sales in certain major markets were adversely impacted in the first quarter of 1992 by unusually cold temperatures.

Royalty fees declined in the current quarter to $1.0 million compared with $1.2 million in the prior year. This decrease was attributable to the Company's advertising and royalty reduction program which concluded at the end of the quarter. Substantially all of the Company's franchisees participated in this one time only program which began in September 1991. Under the terms of the program, 50% of the royalties which would have been paid in the first quarter of 1992 were rebated to the participants to encourage increased use of television and radio advertising. The Company's royalty income was reduced by approximately $700,000 in the quarter as a result of this program, although the Company believes that improved sales of its franchisees participating in the program offset approximately half of the effect of the reduction in royalty income. Primarily as a result of this program, and the introduction of the Rallyburger Combo Meal in substantially all franchised restaurants, franchisee average restaurant sales increased by approximately 13.0% in the quarter.

In the first quarter of 1991, the Company began to emphasize penetration of existing markets through reliance on a greater number of franchisees per market in certain larger markets, each to develop a smaller number of restaurants. Consistent with this policy, the Company began to enforce more strictly its cancellation rights under area development agreements with franchisees who were not complying with area development schedules. The Company defers the recognition of area development fees which are paid in advance to the Company until either (i) restaurants are opened, in which case fees are recognized on a pro rata basis or (ii) the area development agreements are canceled, in which case the Company recognizes any remaining unearned area development fees relating to such areas. Area development fees recognized as income in the current period do not, and for the balance of the year are not expected to, reflect a significant level of area development cancellations.

Restaurant cost of sales declined as a percentage of sales to 35.8% for 1992 compared to 39.8% in 1991. This decrease reflects the impact of permanent changes in food and paper which reduced costs beginning in the third quarter of 1991 due to the Company's introduction of the Rallyburger, which replaced the Company's original 1/4 pound hamburger, and the elimination of certain of its paper products and Styrofoam. Unlike the original hamburger, the Rallyburger is a fully dressed, 1/5 pound hamburger served with leaf (not shredded) lettuce, ringed (not chopped) onions, a larger tomato and more condiments on a sesame seed bun. The Company began serving the Rallyburger in all Company-owned stores in July 1991. The improvement in cost of sales also reflects lower prices for beef in the current period than in the comparable period offset slightly by higher tomato prices in the current quarter.

General and administrative expenses as a percent of total revenues were lower at 10.4% versus 11.5% in the prior year. This change is attributable to revenues increasing faster in the current year than these generally fixed costs.

Advertising and promotion costs as a percent of sales were lower in the first quarter. However, the Company expects the level of advertising to increase over the balance of 1992.

Depreciation and amortization as a percent of restaurant sales were lower in the current period as increases in these expenses, due to more restaurants being open and the amortization of goodwill and other assets which originated in the first quarter of 1991, were offset in part by a change in estimate of the Company's restaurant buildings useful lives from 15 years to 20 years which became effective April 1, 1991. The change reduced depreciation expense approximately $55,000 for the first quarter of 1992 and was adopted to more accurately account for the useful lives of the Company's restaurants and to bring the Company's depreciation policies in line with those of other fast food chains.

Income from operations as a percentage of revenues increased from 8.7% in 1991 to 10.3% in the current quarter. This increase was attributable to higher restaurant-level margins offset in part by the reduction in franchised restaurant related revenues. Restaurant margins grew at Company-owned restaurants from 10.9% in 1991 to 16.5% in 1992 primarily as a result of improved cost of sales, as discussed above. Franchise related revenues were lower due primarily to the advertising and royalty reduction program.

The Company's effective income tax rate for the current quarter was 36.7%, which is the income tax rate the Company anticipates for the balance of 1992.

Liquidity and Capital Resources

Capital expenditures of approximately $2.5 million for the quarter ended April 5, 1992 were funded through operations and existing cash balances. Capital expenditures of approximately $8.6 million for the fiscal year ended December 29, 1991 were funded through operations, existing cash balances and advances under a line of credit. The Company signed a letter of intent on March 26, 1992 to acquire Zipps by June 1, 1992. At May 3, 1992, 29 of the 46 Zipps restaurants were owned and operated by Zipps and the remaining 17 were franchised. The Company will finance this transaction, if necessary, initially by a bridge loan currently being arranged with a commercial bank and will repay the bridge loan with a portion of the proceeds of the Company's secondary offering.

As of April 5, 1992, and for the past several years, the Company has had working capital deficiencies resulting primarily from the pace of its expansion program. The Company does not have significant receivables or inventory and receives trade credit based upon negotiated terms in purchasing food and supplies. Because funds available from cash sales are not needed immediately to pay for food and supplies or to finance receivables or inventory, they may be used for noncurrent capital expenditures. In addition, the Zipps acquisition will temporarily increase the Company's working capital deficiency.

During 1992, including the opening of approximately 35 Company-owned restaurants, but excluding the Zipps acquisition, the Company expects to expend approximately $19.8 million on various capital projects, including implementation of its in-restaurant computer operating system, deployment of its proprietary restaurant video ordering system and exterior enhancements to its buildings to further promote site presence. The Company believes it can fund its operations, anticipated expansion (exclusive of the Zipps acquisition) and these planned capital projects through its existing cash balances, lines of credit and cash flow from operations for at least the next 12 months.

Credit Facilities

The Company has a $9 million credit facility with a bank consisting of a $4 million, unsecured line of credit and a $5 million, unsecured three year term note. The $4 million line of credit bears interest at prime and there were no amounts outstanding under this line at December 29, 1991. The $5 million term note bears interest at prime plus 1/2% and the outstanding balance due under this line of credit was $4,200,000 as of April 5, 1992.

Rally's Finance, Inc., a wholly owned subsidiary, has entered into a credit facility for up to $5,000,000, the proceeds of which will be loaned to Rally's franchisees for equipment and modular building loans. At April 5, 1992, approximately $725,000 was outstanding under this credit facility and loaned to the Company's franchisees.

Acquisitions

On June 28, 1991 the Company acquired all of the issued and outstanding shares of common stock of Maxie's in exchange for 280,000 shares of the Company's common stock. The cost of converting the Maxie's company-owned and franchised restaurants was approximately $600,000.

On January 16, 1991, the Company closed an Agreement and Plan of Reorganization with Snapps Drive-Thru, Inc. whereby 40 of the Snapps chain of 43 double drive-thru restaurants were converted to Rally's franchised restaurants and three were closed. As a Rally's franchisee, Snapps will develop an additional 60 Rally's restaurants over a 42-month period. As a result of this transaction, the Company is receiving royalties from the sales of the former Snapps restaurants.

Under the terms of the Agreement, the Company exchanged 400,000 shares of its common stock for all of the Common Stock of Snapps. 120,000 shares of the Company's common stock has been pledged in escrow pending the fulfillment of various performance conditions by the principal franchisees of Snapps. The Company also agreed to a cash payment to Snapps of up to $2.9 million including a conversion allowance and an option for Snapps to acquire up to 250,000 shares of Rally's common stock at $18 per share if Snapps opens up to sixty new Rally's restaurants over the next three and one-half years. A substantial portion of the Company's cash costs of this transaction are being provided through the royalty fees the Company receives as the Snapps restaurants are converted to Rally's.

Royalties Receivable

The Company's royalties receivable at December 29, 1991 had increased since December 30, 1990 by approximately $837,000 while its allowance for doubtful accounts had increased over the same period by approximately $300,000. These increases were primarily due to increases in the number of its franchised restaurants since December 30, 1990 and to receivables accruing from the Company's franchisees in Phoenix and Virginia Beach both of which sought protection under Chapter 11 bankruptcy laws in 1991. The Arizona franchisee presently operates 14 restaurants and the Virginia Beach franchisee operates eight restaurants.

On January 14, 1992, the Bankruptcy Trustee for the Virginia Beach franchisee approved an order providing for the full payment beginning July 1, 1992 of all pre-petition royalties due to the Company and accepting the Rally's franchise agreements. As a result, the past due balance has been reclassified as other assets in the April 5, 1992 balance sheet. The Virginia Beach franchisee has been paying its current royalties in a timely manner since it entered bankruptcy.

Also in January, 1992, the Arizona franchisee submitted a plan of reorganization to the Arizona Bankruptcy Trustee which would, if accepted as filed, result in the Arizona franchisee accepting the Rally's franchise agreements, settling its past due royalties through contributing equipment packages to Rally's and continuing to operate as Rally's restaurants. The Arizona franchisee has not made any royalty payments since it entered Chapter 11 and the Company's allowance for doubtful accounts on April 5, 1992 is substantially related to this franchisee's past due balances.

EXHIBIT 11

RALLY'S, INC. AND SUBSIDIARIES
CALCULATIONS OF EARNINGS PER SHARE
(Unaudited)

	14 Weeks Ended April 5, 1992	13 Weeks Ended March 31, 1991
Net income	$1,536,560	$1,110,099
Average shares of common stock and equivalents outstanding (1):		
Average common shares outstanding	7,410,193	7,333,320
Common stock equivalents -- dilutive options	467,983	22,598
Average shares of common stock and equivalents outstanding	7,878,176	7,355,918
Earnings per share	$.20	$.15

(1) Excludes 120,000 shares held in escrow pending the performance of certain obligations by stockholders.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

On March 23, 1989, the Company filed suit against International Shortstop, Inc. ("Shortstop"), and several of Shortstop's franchisees in the Federal District Court for the Eastern District of Arkansas. The Company alleged that Shortstop's buildings infringed on the proprietary color and design of Rally's buildings. On November 30, 1990, the Court ruled in favor of Shortstop. The Company appealed this decision to the United States Court of Appeals for the Eighth Circuit which affirmed the trial court's decision on October 29, 1991.

On July 17, 1989, Shortstop and others filed suit against the Company claiming that the Company's management was aware of an alleged agreement by Alvin C. Copeland to purchase Shortstop and that the Company's suit against Shortstop was filed solely to interfere with that transaction. Shortstop is seeking damages in excess of $12,000,000, along with prejudgment interest and exemplary damages in amounts not less than $24,000,000. The Company had commenced the steps to bring its action against Shortstop before the date it is alleged to have become aware of such agreement between Shortstop and Copeland. On September 17, 1990, the District Court entered summary judgment in favor of Rally's, dismissing all claims against the Company. Shortstop filed an appeal to the United States Court of Appeals for the Fifth Circuit which on August 22, 1991, vacated the grant of Summary Judgment and remanded the case to the trial court for further consideration. Rally's filed a Petition for Certiorari to the United States Supreme Court and in January, 1992, the Supreme Court refused to hear the case. Rally's believes that the allegations of Shortstop are without merit and that the outcome of the litigation will not have a material adverse effect on the Company's operations or financial condition.

ITEM 6. Exhibits and Reports on Form 8-K.

(b) *Reports on Form 8-K.*

There were no reports on Form 8-K filed during the quarter.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RALLY'S, INC.

Date: May 18, 1992

By: Wayne M.
Wayne M. Albritton
President and Chief Operating Officer

Date: May 18, 1992

By: Donald C. Moore
Donald C. Moore
Sr. Vice President of Finance and
Chief Financial Officer
(Principal Financial Officer)

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SECURITIES AND EXCHANGE COMMISSION

N 92-2271

WASHINGTON, D.C. 20549

RECD S.E.C.

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FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended January 31, 1992
Commission file number ~~2-96640~~ 0-14027

THE SPORTING LIFE, INC.
Exact name of registrant as specified in its charter

Delaware	54-1248305
(State or other jurisdiction of incorporation or organization)	(IRS Emlployer Identification No.)

5302 Eisenhower Avenue
Alexandria, Virginia 22304
(Address of Principal Executive Offices)

(703) 823-1500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest praticable date.

The numlber of shares outstanding of the registrant's common stock as of March 13, 1992 was 964,246.

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THE SPORTING LIFE, INC.

DEBTOR IN POSSESSION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended January 31,		Six months ended January 31,	
	1992	1991	1992	1991
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating revenues:				
Net merchandise sales	$2,151,786	$2,695,377	$4,392,360	$6,360,799
List rental income	110,503	171,018	264,391	403,828
Total Operating Revenues	2,262,289	2,866,395	4,656,751	6,764,627
Operating costs and expenses				
Costs of goods sold	1,074,068	1,541,848	2,029,174	3,202,037
Catalog production costs	942,482	994,497	1,906,126	2,262,996
Selling, general and administrative expenses	813,925	784,943	1,570,369	1,827,847
Total Operating Costs and Expenses	2,830,475	3,321,288	5,505,669	7,292,880
Income (loss) from operations	-568,186	-454,893	-848,918	-528,253
Other income (expense):				
Interest expense	-12,997	-86,038	-35,153	-105,456
Other income	0	4,352	679	6,373
Earnings before reorganization items	-581,183	-536,579	-883,392	-627,336
Reorganization items:				
Professional fees	-15,000	0	-30,000	0
Interest earned on accumulated cash resulting from Chapter 11 proceeding	3,662	0	6,662	0
	-11,338	0	-23,338	0
Net income (loss)	-592,521	-536,579	-906,730	-627,336
Earnings (loss) per common share	$-0.61	$-0.55	$-0.94	$-0.65
Weighted average number of shares outstanding	964,246	969,580	966,064	969,649

See accompanying notes.

THE SPORTING LIFE, INC.

(DEBTOR-IN-POSSESSION)

CONSOLIDATED BALANCE SHEETS

JANUARY 31, 1992 AND JULY 31, 1991

ASSETS	January 31, 1992 (unaudited)	July 31, 1991 (unaudited)
Current assets:		
Cash and cash equivalents	$46,312	$843,806
Accounts receivable-trade (net)	29,561	202,199
Accounts receivable-list rentals (net)	72,901	109,821
Total accounts receivable	102,462	312,020
Inventories (net)	1,635,779	1,662,450
Deferred catalog costs	783,094	428,173
Prepaid expenses	353,165	162,485
Total current assets	2,920,812	3,408,934
Property and equipment, at cost	1,004,100	1,002,419
Less: Accumulated depreciation and amortization	889,168	838,393
Net property and equipment	114,932	164,026
Other assets	47,407	47,339
	$3,083,151	$3,620,299

THE SPORTING LIFE, INC.

(DEBTOR-IN-POSSESSION)

CONSOLIDATED BALANCE SHEETS

JANUARY 31, 1992 AND JULY 31, 1991

LIABILITIES AND SHAREHOLDERS' EQUITY	January 31, 1992 (unaudited)	July 31, 1991 (unaudited)
Current liabilities:		
Accounts Payable	$274,985	$164,451
Customer deposits	32,864	71,034
Refunds payable	584,076	625,318
Accrued catalog prod costs	411,083	39,885
Other accrued liabilities	174,489	185,285
Total current liablilites	1,477,497	1,085,973
Estimated liabilities subject to Chapter 11 reorganization proceedings	2,859,313	2,859,313
Shareholders' equity:		
Common stock, par value $ .01 per share; 5,000,000 shares authorized, 1,002,246 shares issued and outstanding	10,022	10,022
Capital in excess of par value	3,102,572	3,113,862
Accumulated deficit	-4,261,577	-3,354,847
	-1,148,983	-230,963
Deferred compensation	-3,801	-8,450
Treasury stock, at cost	-100,875	-85,574
Total shareholders' equity	-1,253,659	-324,987
	$3,083,151	$3,620,299

THE SPORTING LIFE, INC.
(Debtor-in-Possession)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JANUARY 31, 1992 AND 1991

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	JANUARY 31, 1992	JANUARY 31, 1991
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net income (loss)	$-906.730	$-627,336
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	50,775	130,497
Amortization of deferred compensation	6,558	-30,820
Adjustment of previously expensed compensation related to stock for non-employee directors upon forfeiture of shares	-28,500	
Provision for losses on accounts receivable	10,000	3,000
Provision for inventory obsolescence	-521,309	
Loss on disposal of property and equipment		
Changes in assets and liabilities:		
Accounts receivable	199,490	141,248
Inventories	547,980	-12,649
Deferred catalog costs	-354,921	-11,035
Prepaid expenses	-190,680	-66,273
Accounts payable	110,534	384,894
Accrued catalog production costs	371,198	31,442
Customer deposits	-38,170	-22,621
Refunds payable	-41,242	181,535
Accrued liabilities	-10,796	-37,792
Net cash provided by (used in) operating activities	-795,813	64,090
Cash flows from investing activities:		
Purchase of property and equipment	-1,681	-33,171
Net cash (used in) investing activities	$-797,494	$30,919

THE SPORTING LIFE, INC.
(Debtor-in-Possession)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JANUARY 31, 1992 AND 1991

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	JANUARY 31, 1992 (unaudited)	JANUARY 31, 1991 (unaudited)
Cash flows from financing activities:		
Net borrowings (repayments) under line of credit agreement	0	292,743
Purchase of Treasury Stock	0	0
Principal payments of long-term obligations	0	-36,615
Net cash provided by (used in) financing activities	0	256,128
Net increase (decrease) in cash and cash equivalents	-797,494	287,047
Cash and cash equivalents at beginning of year	843,806	290,093
Cash and cash equivalents at end of period	$46,312	$577,140
Supplemental disclosure of cash flow information:		
Reorganization costs paid during the year	7,291	0
Reorganization revenue received during the year	6,662	0

THE SPORTING LIFE, INC.

(Debtor-In-Possession)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - The Balance Sheet of The Sporting Life, Inc. at January 31, 1992 and July 31, 1991, the Statement of Operations for the three months and six months ended January 31, 1992 and 1991, and the Condensed Statement of Cash Flows for the six months ended January 31, 1992 and 1991, in the opinion of management, include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the financial position, the results of operations and cash flows at and for the periods indicated. Information with respect to all periods ended January 31, 1992 and 1991 is unaudited.

NOTE 2 - The Company filed a petition for reorganization under Chapter 11 of the United States Bankruptcy Code ("Chapter 11") on February 7, 1991. The Company is presently operating its business as a debtor-in-possession under Chapter 11 and is subject to the jurisdiction of the Bankruptcy Court. In a Chapter 11 case, substantially all liabilities as of the date of the filing of the petition for reorganization are subject to settlement under a plan of reorganization to be voted upon by the Company's impaired creditors and confirmed by the Bankruptcy Court. The Company continues to manage its affairs and operate its business as a debtor-in-possession, subject to the supervision of the Bankruptcy Court while the case is pending.

The principal categories of claims reclassified in the Consolidated Balance Sheets and included in "Estimated liabilities subject to Chapter 11 reorganization proceedings" are identified below. These amounts may be subject to future adjustments depending on Bankruptcy Court actions and further developments with respect to disputed claims. The ultimate amount of, and settlement terms for, such liabilities are subject to a plan of reorganization, and accordingly, are not presently determinable.

Trade payables, merchandise	$1,254,067
Trade payables, non-merchandise	217,353
Catalog production liabilities	596,519
Demand note payable (secured)	742,743
Long-term debt (secured)	48,611
	$2,859,294

PART I. FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Net merchandise sales for the six months ended January 31, 1992 were $4,392,360, down 30.9%, compared to $6,360,799 for the same period in 1991. In an attempt to improve catalog response the Company revised its marketing strategy early in the fiscal year, eliminating one of its two catalog titles and mailing both a winter and a holiday catalog. This resulted in 30.6% lower circulation for the six months as compared to the same period last year. Poor response to the Fall 1991 and Spring 1992 catalogs was partially offset by greater clearance sales during the six months ended January 31, 1992.

Net merchandise sales for the second quarter decreased 20.2% from $2,695,377 to $2,151,786 for the quarter ended January 31, 1992, principally due to 12.8% lower circulation and poor response to the Spring 1992 catalog.

List rental income decreased 34.5%, from $403,828 to $264,391 for the six months ended January 31, 1992 as compared to the same period last year and decreased 35.4%, from $171,018 to $110,503 for the second quarter in 1992 as compared to the same period in 1991. List rental income decreased due to other catalogers concentrating on their house files and therefore renting fewer names.

Cost of goods sold as a percentage of net merchandise sales was 46.2% for the six months ended January 31, 1992 as compared to 50.3% for the same period last year, and was 49.9% for the three months ended January 31, 1992 compared to 57.2% for the same period last year. The decrease is principally due to a reduction in the inventory reserve for inventory overstocks due to increased clearance sales, as well as higher gross margins on the fall and winter merchandise.

Catalog production costs decreased 15.8%, from $2,262,996 for the six months ended January 31, 1991 to $1,906,126 for the six months ended January 31, 1992 and decreased 5.2% from $994,497 to $942,482 for the second quarter ended January 31, 1992 as compared to the same period in 1991. While catalog circulation was significantly reduced, the savings effected by such reduced mailings were offset by additional postage costs from mailing the fall, winter, holiday and spring catalogs and by an increase in the amount expended for creative design.

Selling, general and administrative (SG&A) expenses as a percentage of net sales increased to 35.8% from 28.7% for the six months ended January 31, 1992 and 1991, respectively, and increased to 37.8% from 29.1% for the second quarter ended January 31, 1992 and 1991, respectively, principally due to fixed costs associated with lower net sales, an increase in shipping rates, and higher personnel costs due to changes in management.

Interest expense decreased from $105,456 to $35,153 for the six months ended January 31, 1992 and decreased from $86,038 to $12,997 for the quarter ended January 31, 1992 principally due to interest payments during the second quarter of 1991 on a special payment plan made with the company's vendors in November 1990. The payment plan was terminated when the Company filed for bankruptcy.

As a result of the factors discussed above, the Company's net loss increased to $906,730 from $627,336 for the six months ended January 31, 1992 and increased to $592,521 from $536,579 for the three months ended January 31, 1992.

LIQUIDITY AND CAPITAL RESOURCES

On February 7, 1991, the Company filed for protection under Chapter 11 of the Federal Bankruptcy Law. (See Note 2 to the financial statements). The Company's creditors have formed a committee which has retained counsel to deal with the Company and its counsel. A preliminary meeting between representatives of the Company and representatives of the Creditors' committee has been held, but no arrangements have been proposed with respect to the Company's outstanding debts. The Company has been unable to present a plan of reorganization due to its inability, to date, to attract additional financing or investment. The Company has suspended its plans to produce catalogs on a monthly basis until such time as additional financing or investment becomes available.

The period within which the Company had the sole right to propose such a plan has expired. Thus, any third party can now present such a plan which could include acquiring all of the business of The Company with little if any payment to the Company's shareholders. Any arrangements with the Company's creditors and its shareholders, if they are adversely affected, must be approved by the Bankruptcy Court.

Working capital was approximately $1,443,315 at January 31, 1992 compared to $711,116 at January 31, 1991. Not included in working capital at January 31, 1992 is $2,859,000 of estimated liabilities subject to Chapter 11 reorganization proceedings.

The Company's liquidity is provided solely by internally generated funds from its mail order sales and from the orderly reduction of its inventory overstocks. The Company has held, and is continuing to hold, a series of warehouse sales, and has mailed a Final Edition catalog, its inventory clearance catalog, for this purpose. The Company's credit relations with its merchandise suppliers have been adversely affected by the bankruptcy filing. While the Company has been able to acquire merchandise for its catalogs, it has been required to do so on a C.O.D. or payment in advance basis. The Company has experienced difficulty in obtaining additional merchandise to fill orders where demand has been greater than anticipated.

To some extent, the Company has been able to reduce the impact of its lack of credit through the use of a credit arrangement with M.L. Rothschild ("Rothschild"), a purchase order guarantor. Under that arrangement, the Company can obtain purchase order guarantees of up to $400,000 for merchandise purchases through Rothschild. Rothschild issues its own purchase orders to the Company's vendors and guarantees payment to the vendors. In general, the Company agrees to pay the vendor's invoice over a period of 45 days and to pay a fee to Rothschild of 4.5% of the invoice amount. The outstanding purchases under the agreement are secured by an interest in the Company's inventory and a subordinated interest in its accounts receivable and property and equipment. At January 31, 1992, the Company had $165,000 of outstanding purchase orders with Rothschild.

The Company's demand note with First American Bank (the Bank) totalling $742,743 is secured by the Company's mailing lists, accounts receivable and fixed assets. The Bankruptcy Court has allowed the Company to use collateralized funds for working capital purposes. The court's order has expired, but remains intact by mutual agreement between the Bank and the Company on an interim basis. The Company remains obligated to the Bank for monthly interest on the demand note.

The Company does not have a post-petition line-of-credit and most likely will not be able to secure such a line of credit unless the Company emerges from Chapter 11. Although the Company has been able to meet its current operating needs through internally generated funds and working capital, the continued operations of the Company depend upon its ability to secure financing and operate profitably. The Company has been exploring alternative sources of financing or investment in order to provide the necessary cash flow should the need arise.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company filed for protection under Chapter 11 of the Bankruptcy Law of the United States. The filing was made on February 7, 1991 in the United States District Court for the Eastern District of Virginia, Alexandria Division, Case No. 91-10470-AB. The Company is seeking to reorganize and emerge as a going concern. No plan of reorganization has been presented to the creditors or the court.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits - none

(b) Reports on Form 8-K:

The Company filed Form 8-K dated February 7, 1992 regarding the deletion of its securities from the Nasdaq Stock Market and the listing of its securities in the "pink sheets."

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The Sporting Life, Inc.
Registrant

Date: March 16, 1992

Martin Alpert

Martin Alpert
President and CEO

Date: March 16, 1992

Brenda Potosnak

Brenda Potosnak
Controller

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TAL-CAP, INC.
5031 Colonial Drive
Golden Valley, MN 55416
(612) 929-0619

SECURITIES & EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the 13-week interim period ended April 30, 1992.

Commission File Number 0-941.

TAL-CAP, INC.

Minnesota 41-0859562

5031 Colonial Drive, Golden Valley, MN 55416
(612) 929-0619

The Registrant (1)*HAS* filed all reports required to be filed by Section 13 or 15(d) of The Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the Registrant was required to file such reports), and (2)*HAS* been subject to such filing requirements for the last 90 days.

Common Stock Outstanding at the end of the period was:

2,907,664 shares.

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PROCESSED BY
6-6-V
JUN 18 1992

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Q-Data Corp. - St. Petersburg, FL

TAL-CAP, INC.
STATEMENT OF OPERATIONS
(UNAUDITED)

FOR THE 13-WEEK INTERIM PERIOD ENDING:

	April 30, 1992	April 30, 1991
REVENUES:		
Interest Income	$ 1,705	$ 2,873
Total Revenues:	$ 1,705	$ 2,873
COSTS & EXPENSES:		
Administrative Expenses	$ 2,838	$ 4,683
Total Expenses:	$ 2,838	$ 4,683
Gain (Loss) Before Taxes	$ <1,133>	$ <1,810>
Provision for Taxes	-0-	-0-
Net Gain (Loss)	$ <1,133>	$ <1,810>
Gain (Loss) Per Share	<.00039>	<.00062>
Average Shares Outstanding	2,907,664	2,907,664

TAL-CAP, INC.
BALANCE SHEET
(UNAUDITED)

FOR THE 13-WEEK INTERIM PERIOD ENDING:

	April 30, 1992	April 30, 1991
ASSETS:		
Cash	$ 192,764	$ 197,905
LIABILITIES & STOCKHOLDERS' EQUITY:		
LIABILITIES:	$ -0-	$ -0-
STOCKHOLDERS' EQUITY:		
Common Stock, $0.20 par (Authorized - 6.250.000) (Issued & Outstanding - 2,907,664)	$ 584.144	$ 584.144
Capital in Excess of Par	$ 1.209.420	$ 1.209.420
Accoumulated Deficit	$ <1.600799>	$<1.595.659>
TOTAL	$ 192.764	$ 197.905

TAL-CAP, INC.
STATEMENT OF CHANGES IN FINANCIAL POSITION
(UNAUDITED)

FOR THE 13-WEEK INTERIM PERIOD ENDING:

	April 30, 1992	April 30, 1991
Financial Resources applied to:		
Net Loss	$ 1,133.00	$ 1,810.00
Financial Resources provided by:		
Net Gain	$ -0-	$ -0-
Decrease (Increase) in Working Capital	$ 1,133.00	$ 1,810.00
Changes in Elements of Working Capital:		
Decrease (Increase) in Assets:	$ 1,133.00	$ 53,674.00
Increase (Decrease) in Liabilities	$ -0-	$ -0-
Increase (Decrease) in Shareholders' Equity	$ -0-	$<51,864.00>
Decrease (Increase) in Working Capital	$ 1,133.00	$ 1,810.00

Notes:

(1) The accompanying unaudited, condensed financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and footnotes as required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. These statements should be read in conjunction with the financial statements and related notes in the Company's Form 10-K for the fiscal year ended February 2, 1992.

(2) There was no sale of unregistered securities in this quarter.

SIGNATURES:

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TAL-CAP, INC.

Carol Chesen
Director, President

Vernon J. Rockler
Director, Treasurer

Dated June 10, 1992

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Form 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended: April 30, 1992

P92-2271

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No.: ~~0-17792~~ 33-24954

TERMINAL APPLICATIONS GROUP, INC.
(Exact name of Registrant as specified in its charter)

New York
(State or other jurisdiction of incorporation or organization)

11-2214936
(I.R.S. Employer Identification No.)

495 Central Park Avenue, Scarsdale, New York
(Address of principal executive offices)

10583
(Zip Code)

Registrant's telephone number, including area code: (914) 723-0800

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X(1) No ____

(1) Registrant has been subject to the filing requirements for the past 90 days. Due to Registrant's weakened financial condition, a portion of the fees of Coopers & Lybrand, independent certified public accountants of Registrant, for the audit of the financial statements for the 1990 fiscal year remain unpaid. Accordingly, the reports of Coopers & Lybrand on the financial statements and financial statement schedules for the 1991 fiscal year have not been released and were omitted from Registrant's Annual Report on Form 10-K for the 1991 fiscal year.

(8)

On June 12, 1992 there were outstanding 6,309,240 shares of Common Stock, $.01 par value per share of the Registrant.

PROCESSED BY
19-19-V
JUN 18 1992

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TERMINAL APPLICATIONS GROUP, INC.

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TERMINAL APPLICATIONS GROUP, INC.
BALANCE SHEETS
4/30/92 & 10/31/91

	4/30/92 (Unaudited)	10/31/91 (Unaudited)
ASSETS:		
Cash	$ 13,715	$ 70,760
Receivables, trade	291,782	239,061
Other receivables	96,994	31,494
Net investment in sales-type leases	1,415,115	1,596,488
Inventory	236,071	266,071
Prepaid expenses	27,602	41,508
Fixed assets, net of acc. dep. (Note 3)	2,033,022	2,178,321
Due from affiliates	20,729	41,068
Deposits	19,060	18,461
Total Assets	$4,154,090	$4,483,232
LIABILITIES & STOCKHOLDERS' EQUITY:		
Liabilities:		
Long-term debt (Note 4)	2,619,930	$2,624,453
Accounts payable and accrued expenses	2,068,357	1,646,406
Obligations under capital leases	127,433	155,565
Customer deposits and unearned rental income	250,871	263,243
Deferred income	2,783	62,104
Total Liabilities	5,069,374	4,751,771
Stockholders' Equity:		
Preferred stock, par value $.10 per share:	16	16
Common stock, par value $.01 per share:	64,232	63,732
Common Stock Subscribed	0	
Additional paid-in capital	2,694,223	2,694,222
Retained Earnings	(3,635,755)	(2,988,509)
	(877,284)	(230,539)
Less, Treasury stock, at cost,	38,000	38,000
	(915,284)	(268,539)
Total Liabilities and Stockholders' Equity	$4,154,090	$4,483,232

The accompanying notes are an integral part of these financial statements.

TERMINAL APPLICATIONS GROUP, INC.

STATEMENTS OF OPERATIONS

	Three Months Ended April 30		Six Months Ended April 30	
	1992 (Unaudited)	1991 (Unaudited)	1992 (Unaudited)	1991 (Unaudited)
REVENUES:				
Net sales and related interest income	$ 234,142	$ (74,486)	$ 665,956	$ (14,432)
Rentals and maintenance	(29,482)	465,190	336,306	965,433
Total Revenues	204,660	390,704	1,002,262	951,001
COST OF REVENUES:				
Cost of products sold	26,410	66,340	79,096	120,518
Cost of rental and maintenance services	319,235	319,351	651,658	680,440
Total Cost of Revenues	345,645	385,691	730,754	800,958
Gross Profit	(140,985)	5,013	271,508	150,043
EXPENSES:				
Operating expenses	82,487	101,733	181,123	195,227
Research and development	60,609	14,161	116,781	76,640
Selling expenses	75,414	109,127	161,909	226,895
General and administrative	150,952	214,652	335,186	369,385
Total Operating Expenses	369,462	439,673	794,999	868,147
Income (loss) from Operations	(510,447)	(434,660)	(523,491)	(718,104)
Interest expense	60,116	64,972	123,845	144,992
Income Before Tax	(570,563)	(499,632)	(647,336)	(863,096)
Provision for Tax	0	0	0	0
Net Income (Loss)	$ (570,563)	$ (499,632)	$ (647,336)	$ (863,096)
Earnings (Loss) Per Share of of Common	$ (0.09)	$ (0.08)	$ (0.10)	$ (0.14)
Weighted Average Shares Outstanding	6,275,907	6,259,240	6,275,907	6,259,240

The accompanying notes are an integral
part of these financial statements.

TERMINAL APPLICATIONS GROUP, INC.
STATEMENTS OF CASH FLOW
(Increase (Decrease) in Cash and Cash Equivalents)
(Unaudited)

	For the Six Months Ending April 30,	
	1992	1991
Cash flows provided by (used for) operating activities:		
Net loss	$ (647,336)	$ (863,096)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	263,374	249,844
Changes in assets and liabilities:		
Increase in trade receivables	(52,721)	(42,563)
(Increase) Decrease in Other Receivables	(65,500)	3,041
Decrease in Sales-Type Leases	181,373	653,522
Decrease in Inventory	30,000	39,939
Decrease in Prepaid Expenses	13,906	18,333
(Increase) Decrease in Deposits	(599)	56,792
Decrease (Increase) Due From Affilliates	20,339	(1,536)
Increase in Accounts Payable and and Accrued Expenses	421,951	24,401
Decrease in Customer Deposits and and Unearned Rental Income	(12,372)	(13,317)
Decrease in Deferred Income	(59,321)	(37,344)
	$ 740,430	$ 951,112
Net Cash (used for) Provided by Operating Activities:	$ 93,094	$ 88,016
Cash Flows Used for Investing Activities:		
Acquisitions of Fixed Assets	$ (117,984)	$ (185,267)
Net Cash Used for Investing Activities:	(117,984)	(185,267)
Cash flows provided by (used for) financing activities:		
(Decrease) Increase in long term debt	(4,523)	98,510
Decrease in Capital Lease Obligations	(28,132)	(21,619)
Issuance of common stock	500	1,897
Net Cash (Used for) Provided by Financing Activities:	(32,155)	76,891
Net Decrease in Cash	(57,045)	(20,360)
Cash at the Beginning of the Period	$ 70,760	15,513
Cash at the End of the Period	$ 13,715	$ (4,847)
Supplemental disclosures:		
Cash Paid During the Period for:		
Interest	$ 11,402	$ 33,545
Taxes	$ 616	$ 561

The accompanying notes are an integral part of these financial statements.

TERMINAL APPLICATIONS GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

1. The balance sheets as of April 30, 1992 and October 31, 1991 and the comparative statements of operations for the six-month and three month periods ended April 30, 1992 and 1991, and the comparative statements of cash flows for the six-month periods ended April 30, 1992 and 1991 have been prepared by the Company, without audit. In the opinion of management, all adjustments necessary to present fairly the Company's financial position at April 30, 1992 and 1991, and the results of operations and cash flows for the periods presented have been made. All such adjustments are of a normal, recurring nature. Earnings per share are calculated using the weighted-average number of shares outstanding as common stock equivalents are not significant. The balance sheet at October 31,1991 is unaudited.

2. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that this information be read in conjunction with the annual financial statements of the Company.

3. Fixed assets are carried at cost, less accumulated depreciation and amortization. Depreciation of property and equipment is generally provided under the straight-line method for financial reporting purposes with expected useful lives ranging from five to seven years. Leasehold improvements are generally amortized over the shorter of useful life or terms of the respective leases.

Fixed assets consisted of the following (principally pledged - see Note 4):

	4/30/92	10/31/91
Data processing equipment	$ 1,826,033	$ 2,393,233
Software	2,242,117	2,149,754
Office furniture and equipment	80,078	147,997
Leasehold improvements		390,597
	4,148,228	5,081,581
Less, Accumulated depreciation and amortization	2,115,206	2,903,260
	$ 2,033,022	$ 2,178,321

4. Long-term Debt:

Long-term debt consists of the following:

	4/30/92	10/31/91
Bank loan payable, revolving credit and term loan agreement	$ 2,433,487	$ 2,435,000
Notes payable to vendors	186,443	190,943
	$ 2,619,930	$ 2,624,453

The Loan Agreement provides for an interest rate of 1.25% above the prime lending rate and also requires a facility fee of .75% of the balance of the loan on the date of closing. These borrowings are collateralized by substantially all of the Company's assets. In addition, the Agreement contains certain restrictive covenants, including maintenance of net worth and debt to net worth ratios with which the Company is not in compliance. This Agreement matured in August 1990, and the Bank and the Company have been negotiating its restructuring and repayment. No agreement has yet been reached.

TERMINAL APPLICATIONS GROUP, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

5. **Events:**

A. In January 1991, the Company instituted a work share program under the New York State Unemployment Insurance System. Under the program work schedules and salaries of certain employees were reduced by 20% and such employees received 20% of their unemployment benefits. This program expired in June 1991. At its expiration, all employees took additional salary cuts.

B. In February 1992, the Company signed a 5 year lease for new space for its headquarters and moved during April 1992.
Minimum future rental payments due under the lease exclusive of escalation clauses are as follows:

1992	$ 44,765
1993	89,531
1994	173,165
1995	232,904
1996	245,060
1997	105,726
	$891,151
	=======

C. During May 1992, the Company completed oral testimony in its arbitration with NCR Corporation before the American Arbitration Association. A decision from the arbitrator is not expected until the fourth quarter of fiscal 1992 and the Company cannot predict the outcome of that decision.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Registrant has recently completed a comprehensive review of the current conditions and anticipated future trends in the data processing industry and how those circumstances will impact the business and future plans of the Registrant. Some of the market forces which have a direct impact on the Registrant are:

1. The continual decrease in the price and increase in the power of computer equipment.
2. The use of open operating systems which allows customers to interchange and utilize computer equipment from different manufacturers in an integrated system.
3. The greater availability of computer expertise.
4. The trend to downsize company operations.
5. The outsourcing of various functions that were previously handled internally, including data processing.

As a result of these market forces, the business of the Registrant has declined. In response, the Registrant has reviewed its business plans and strategies and has embarked on a modified course of action. The Registrant has determined that its Challenger data processing system has reached the end of its product life. The Challenger system utilizes proprietary computer software written by the Registrant and designed to operate on mainframe computers manufactured by the NCR Corporation. These mainframe computers utilize an NCR proprietary operating system and Registrant's software can only operate on this equipment. The customer is connected to the mainframe by communications lines, enters information and receives reports. The Registrant licenses its software, operates the computer system and sells its expertise. This type of shared computer mode was an appropriate method of operation when the Registrant commenced business in 1969; however, changes in the data processing market have reduced its appeal.

At the present time, powerful computers can be purchased inexpensively and there is greater availability of computer expertise. Accordingly, potential customers have become able to own and operate their own data processing departments. These customers are interested in purchasing an "open system solution" for their data processing needs which consists of computer equipment from various manufacturers and computer software that will run on all of such equipment. Other customers have taken this open system solution and combined it with downsizing their operations and outsourcing their data processing functions in order to concentrate their efforts on the main aspects of their businesses.

Registrant has modified its plans for its new Star Alpha" data processing system and the Challenger system in response to these changes in the marketplace. Sales of new Challenger systems have declined in the past three years and currently only occur sporadically. Accordingly, Registrant has abandoned further efforts to sell new Challenger systems but will continue to sell upgrades and additional equipment and services to existing customers. Registrant has also intensified its efforts to encourage existing customers to switch to the Star Alpha" system. The Star Alpha" system will not be offered in a shared computer mode of operation as previously anticipated but, instead, the system, complete with the computer, will be sold to customers. Registrant will also offer a facility management outsourcing service to customers who desire Registrant to operate their data processing equipment. In this mode, the customer's computer would be located at Registrant's office and connected to the customer's facility by communication lines.

The initial version of the Star Alpha™ software will utilize the OS/2 operating system run on IBM and IBM compatible personal computers. In the future, the Registrant may offer a version of the Star Alpha™ software that utilizes other operating systems which run on computers from other manufacturers including IBM, Sun Microsystems, Hewlett-Packard, etc.

In addition to its direct sales force, Registrant offers the Star Alpha™ software through selected resellers and systems integrators. Distribution license agreements have been signed with six distributors. Lastly, Registrant has oriented its marketing efforts to larger customers, including Fortune 1000 companies, who desire to decentralize their data processing functions. The Registrant has modified its marketing and sales plans for Star Alpha™ to reflect the changes in the marketplace since the Star Alpha™ project commenced over three years ago.

The lack of sales of new Challenger systems has resulted in a growing cash insufficiency which the Registrant has addressed with various cost cutting programs instituted over the past two years.

These programs included several reductions in staff, reductions in salaries paid to the remaining staff with the largest reductions in actual dollars and percentages imposed on management salaries, a temporary work share program under the New York State Unemployment System utilized in 1991, and various changes in schedules and procedures, all designed to reduce costs.

In April 1992, Registrant relocated its principal offices to White Plains, New York and lowered its annual rental and related expenses by approximately $160,000 per year for the first two years of its new five year lease. Registrant is in the process of relocating its Philadelphia sales office and has reached an understanding in principal with the landlord for the old location regarding the balance of the rent due under the lease. Under this understanding, Registrant will save an aggregate of approximately $95,000 over the next three years. Furthermore, to conserve cash during certain periods, the payment of salaries of officers and key employees has been delayed. At June 1, 1992 the Registrant had delayed the payment of approximately $65,500 of such salaries. The Registrant has also selectively delayed the payment of various other accounts payable.

Registrant had a backlog of orders of approximately $380,600 at April 30, 1992 for the Star Alpha™ system. The Registrant announced the release of certain modules of the Star Alpha™ system in December 1990. The remaining modules of the first version of the Star Alpha™ system have been and will continue to be released for sale as they are completed. The Registrant has installed a pre-release version of portions of the Star Alpha™ system at seven customers. The Registrant has commenced installing backlog orders for Star Alpha™ systems that are comprised of the modules which have been released but will not be able to install the remaining backlog until the modules to be installed are completed and are fully operational.

Total revenues for the second fiscal quarter ended April 30, 1992 and 1991 were $204,660 and $390,704, respectively. Total revenues for the six-month periods ending April 30, 1992 and 1991 were $1,002,262 and $951,001. The decrease of $186,044 in the 1992 second fiscal quarter and the increase of $51,261 in the 1992 six-month period reflects increased sales of the Star Alpha™ system and the reduction in the rentals and maintenance income due to a reduction in the number of customers on the Challenger system.

The Registrant's gross profit margin on revenues was approximately (69)% for the 1992 second fiscal quarter and approximately 27% for the six months ended April 30, 1992 as compared to approximately 1% and 16%, respectively, in the prior year periods. The gross profit margins are lower than the Registrant previously achieved and reflect the fact that revenues are reduced while the cost of revenues are relatively fixed.

Total expenses as a percentage of total revenues were approximately 181% and 113% for the second fiscal quarters of 1992 and 1991, respectively, and 79% and 91% for the six-month periods ending April 30, 1992 and 1991, respectively. Expenses decreased by $70,211, or approximately 16%, in the second fiscal quarter ending

April 30, 1992 and decreased by $73,148, or approximately 8%, for the six months ended April 30, 1992, respectively, over the like periods in the prior fiscal years.

Selling expenses decreased by $33,713 and $64,986 for the 1992 second fiscal quarter and six months ended April 30, 1992 as compared to the prior fiscal year periods. General and Administrative expenses decreased by $63,700 and $34,199 for the 1992 second fiscal quarter and six months ended April 30, 1992 as compared to the prior fiscal year periods. Operating expenses decreased by $19,246 and $14,104 in the 1992 second fiscal quarter and six months ended April 30, 1992 as compared to the prior fiscal year periods. Reductions in selling, general and administrative, and operating expenses reflect the salary and personnel reductions instituted by the Registrant.

Research and Development expenses were $60,609 and $14,161 for the 1992 and 1991 second fiscal quarters and $116,781 and $76,640 for the six months ended April 30, 1992 and 1991, respectively. Registrant's Star Alpha" software has, as previously reported, reached technological feasibility and the research and development costs of such software incurred in and subsequent to the fourth quarter of the 1989 fiscal year are being capitalized. The increases of $46,448 and $40,141 in the 1992 second fiscal quarter and six months ended April 30, 1992 as compared to the prior fiscal year periods reflect the fact that certain of the research and development costs are no longer permitted to be capitalized because the Registrant has sold Star Alpha™ systems composed of the modules that have been completed and released.

Liquidity and Capital Resources

As noted above, the Registrant is facing a continuing liquidity insufficiency resulting from reduced sales volume. Registrant's relocation of its facilities and reductions in staff and other expenses had a material favorable impact in the fiscal quarter and six months ended April 30, 1992. It is the intention of management to continue to closely monitor the situation and to take those actions required by future developments. The Registrant still anticipates that Star Alpha™, the Registrant's new data processing system, will be favorably received by the marketplace and has received favorable comments and 10 deposits from new and existing customers who have seen the current form of the system.

Net cash provided by operating activities was $93,094 and $88,016 for the six-month periods ended April 30, 1992 and 1991. The cash provided by operating activities results from the decrease in sales type leases.

Net cash (used for) investing activities in fixed assets was $(117,984) and $(185,267) for the six months ended April 30, 1992 and 1991.

Net cash (used for) provided by financing activities was $(32,155) and $76,891 for the six months ended April 30, 1992 and 1991 and primarily reflects a decrease in long term debt in the 1992 period.

In August 1988 the Registrant entered into a two year revolving credit line which bears interest at 1 1/4% over the bank's prime rate, is collateralized by substantially all of the Registrant's assets and provided for loans up to a maximum of $2,500,000 with the amount determined by a formula based upon the Registrant's net investment in "sales-type leases" and accounts receivable. This revolving line of credit matured on August 31, 1990 but has not been repaid. The bank has limited the maximum amount which the Registrant can borrow to $2,435,000, the amount outstanding on October 31, 1990. The bank and the Registrant have been negotiating the repayment of this loan for a reduced amount payable over a number of years; however, a final agreement has not, as yet, been reached. There can be no assurance that these negotiations will be successful.

Under the original terms of this revolving credit line, the Registrant could convert the total amount outstanding on the maturity date to a three year term loan bearing interest at 1 1/2% over the bank's prime rate and payable in 36 equal monthly payments of principal together with interest on the amount outstanding. At October 31, 1991, 1990 and 1989 the Registrant had drawn $2,435,000, $2,435,000 and $2,170,000, respectively against this line of credit. Borrowed funds are used primarily for working capital.

Under the terms of this revolving credit line, the Registrant is subject to a number of affirmative and negative covenants.

Among those covenants are a requirement that the Registrant maintain a minimum net worth of $1,400,000, $1,500,000 and $1,600,000 during the 1988, 1989 and 1990 fiscal years, respectively, and a debt, as defined, to net worth ratio of 2 to 1. At June 1, 1992, the Registrant was 18 months behind in the payment of interest and is not in compliance with the net worth or debt to net worth requirements.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

a. Exhibits - None

b. Registrant filed a Current Report on Form 8-K dated March 2, 1992 reporting, under Item 6. Resignations of Registrant's Directors, the decision of Robert Mantin not to stand for re-election to the Board of Directors at the 1992 Annual Meeting of Shareholders and the resignation of Robert I. Schulman from the Board of Directors of Registrant. There were no disagreements between Registrant and Messrs. Mantin and Schulman regarding the operations, policies or practices of Registrant.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TERMINAL APPLICATIONS GROUP, INC.

By:____________________________
Gerald D. Kaplan, President
Principal Executive and
Financial Officer

Dated: June 12, 1992

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

[✓] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 0-11442

Texas Utilities Electric Company

A Texas
Corporation

I.R.S. Employer Identification No.
75-1837355

2001 BRYAN TOWER, DALLAS, TEXAS 75201
(214) 812-4600

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Corporation
St. Petersburg, FL

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No___

Common stock outstanding at July 31, 1992: 145,000,000 shares, without par value.

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

THE FINANCIAL STATEMENTS HEREIN HAVE BEEN REVIEWED BY DELOITTE & TOUCHE, INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS, WHOSE REPORT WITH RESPECT THERETO IS FILED HEREWITH IN PART I OF THIS REPORT. THE FOLLOWING FINANCIAL STATEMENTS SHOULD BE CONSIDERED IN CONJUNCTION WITH THE NOTES THERETO, THE FINANCIAL STATEMENTS OF THE COMPANY INCLUDED IN THE 1991 ANNUAL REPORT ON FORM 10-K AND THE INFORMATION UNDER MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. IN THE OPINION OF THE COMPANY, ALL ADJUSTMENTS (CONSTITUTING ONLY NORMAL RECURRING ACCRUALS AND THE CHANGE IN ACCOUNTING DISCUSSED IN NOTE 14 TO FINANCIAL STATEMENTS) NECESSARY TO A FAIR STATEMENT OF THE RESULTS OF OPERATIONS HAVE BEEN INCLUDED THEREIN.

TEXAS UTILITIES ELECTRIC COMPANY
STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	1992	1991	1992	1991	1992	1991
			Thousands of Dollars			
OPERATING REVENUES	$1,195,775	$1,197,059	$2,252,696	$2,291,063	$4,853,155	$4,850,544
OPERATING EXPENSES						
Fuel and purchased power	406,351	434,871	786,662	821,372	1,721,712	1,768,615
Operation	175,578	182,326	344,581	362,328	711,868	723,767
Maintenance	77,014	81,500	146,730	146,744	304,670	303,146
Depreciation and amortization	101,740	108,926	202,467	216,837	410,845	409,840
Federal income taxes	49,966	23,503	64,885	43,481	174,368	166,552
Taxes other than income	103,273	91,438	207,268	183,802	460,813	360,539
Total operating expenses	913,922	922,564	1,752,593	1,774,564	3,784,276	3,732,459
OPERATING INCOME	281,853	274,495	500,103	516,499	1,068,879	1,118,085
OTHER INCOME (LOSS)						
Allowance for equity funds used during construction	49,515	53,810	96,185	105,800	242,130	253,620
Provision for regulatory disallowance (Note 11)	–	–	–	–	(1,381,145)	–
Other income and deductions – net	492	1,657	2,590	3,511	11,539	6,778
Federal income taxes (Notes 7 and 11)	205	(581)	(370)	(1,192)	363,675	(2,286)
Total other income (loss)	50,212	54,886	98,405	108,119	(763,801)	258,112
TOTAL INCOME	332,065	329,381	598,508	624,618	305,078	1,376,197
INTEREST CHARGES						
Interest on mortgage bonds	149,787	149,641	304,874	296,369	617,234	577,794
Interest on other long-term debt	13,803	15,645	28,156	31,785	58,193	65,462
Other interest	8,606	15,840	15,986	25,105	52,992	42,446
Allowance for borrowed funds used during construction	(27,888)	(29,684)	(54,265)	(58,566)	(107,999)	(138,922)
Total interest charges	144,308	151,442	294,751	294,693	620,420	546,780
Income (loss) before cumulative effect of a change in accounting principle	187,757	177,939	303,757	329,925	(315,342)	829,417
Cumulative effect of a change in accounting for unbilled revenue (Net of taxes of $41,679,000)(Note 14)	–	–	80,907	–	80,907	–
NET INCOME (LOSS)	187,757	177,939	384,664	329,925	(234,435)	829,417
PREFERRED STOCK DIVIDENDS	30,166	30,374	60,440	60,824	121,219	121,427
NET INCOME (LOSS) AFTER PREFERRED STOCK DIVIDENDS	$ 157,591	$ 147,565	$ 324,224	$ 269,101	$ (355,654)	$ 707,990

See accompanying Notes to Financial Statements.

TEXAS UTILITIES ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,		Twelve Months Ended June 30,	
	1992	1991	1992	1991
	Thousands of Dollars			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$ 384,664	$ 329,925	$ (234,435)	$ 829,417
Adjustments to reconcile net income (loss) to cash provided by operating activities:				
Depreciation	201,009	213,113	406,795	403,632
Deferred federal income taxes – net	75,381	37,136	(209,017)	90,119
Federal investment tax credits – net	(10,161)	(8,064)	(55,596)	(15,075)
Allowance for equity funds used during construction	(96,185)	(105,800)	(242,130)	(253,620)
Amortization of regulatory assets	5,712	11,345	11,908	20,114
Amortization of nuclear fuel	14,152	8,344	19,894	16,361
Provision for regulatory disallowances (Note 11)	–	–	1,381,145	–
Provision for refunds and related interest – net (Note 11)	(8,779)	–	36,114	–
Cumulative effect of a change in accounting for unbilled revenue – net (Note 14)	(80,907)	–	(80,907)	–
Cash flows from operations	484,886	485,999	1,033,771	1,090,948
Changes in assets and liabilities:				
Receivables – net	23,422	(75,661)	69,229	(59,860)
Inventories	(8,125)	(7,514)	(19,836)	(35,060)
Accounts payable – net	(17,899)	(17,119)	(17,875)	(24,759)
Interest and taxes accrued	(77,976)	(50,019)	56,064	28,066
Other working capital	4,106	(27,654)	74,759	(19,858)
Over/under-recovered fuel revenue	18,388	(32,914)	7,773	(58,635)
Deferred taxes on over/under-recovered fuel revenue	(6,252)	11,191	(2,643)	19,936
Other – net	(26,975)	1,134	(7,002)	13,065
Net cash provided by operating activities	393,575	287,443	1,194,240	953,843
CASH FLOWS FROM FINANCING ACTIVITIES:				
Sales of securities:				
First mortgage bonds	905,000	459,858	1,182,440	808,560
Preferred stock	–	–	–	24,531
Common stock	199,563	150,000	400,025	150,000
Retirement of long-term debt and preferred stock	(1,076,824)	(198,530)	(1,115,472)	(238,970)
Change in notes payable to parent	295,300	(61,075)	222,375	(95,275)
Change in notes payable	–	226,000	(11,000)	84,500
Preferred stock dividends paid	(60,304)	(60,985)	(120,932)	(103,224)
Common stock dividends paid	(320,460)	(321,720)	(649,680)	(635,397)
Debt premium, discount and financing expenses	(76,070)	(19,563)	(78,801)	(23,750)
Net cash provided by (used in) financing activities	(133,795)	173,985	(171,045)	(29,025)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Construction expenditures	(568,993)	(538,970)	(1,225,704)	(1,181,356)
Allowance for equity funds used during construction (excluding amount for nuclear fuel)	88,578	97,720	222,926	240,381
Change in construction receivables/payables – net	7,385	(3,483)	4,793	37,415
Cash construction expenditures	(473,030)	(444,733)	(997,985)	(903,560)
Non-utility property – net	1,463	(14)	1,450	(30)
Nuclear fuel (excluding allowance for equity funds used during construction)	(7,611)	(11,301)	(13,003)	(16,230)
Other investments	(6,746)	(5,367)	(12,657)	(5,084)
Net cash used in investing activities	(485,924)	(461,415)	(1,022,195)	(924,904)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(226,144)	13	1,000	(86)
CASH AND CASH EQUIVALENTS – BEGINNING BALANCE	231,801	4,644	4,657	4,743
CASH AND CASH EQUIVALENTS – ENDING BALANCE	$ 5,657	$ 4,657	$ 5,657	$ 4,657

See accompanying Notes to Financial Statements.

TEXAS UTILITIES ELECTRIC COMPANY

BALANCE SHEETS

ASSETS

	June 30, 1992 (Unaudited)	December 31, 1991 (Audited)
	Thousands of Dollars	
ELECTRIC PLANT		
In service:		
Production	$10,462,683	$10,421,387
Transmission	1,456,658	1,443,565
Distribution	3,460,839	3,377,396
General	427,463	425,448
Total	15,807,643	15,667,796
Less accumulated depreciation	3,570,864	3,392,463
Electric plant in service less accumulated depreciation	12,236,779	12,275,333
Construction work in progress	5,212,657	4,809,088
Nuclear fuel (net of accumulated amortization – 1992, $39,545,000; 1991, $25,393,000)	334,767	333,701
Held for future use	28,842	29,069
Electric plant less accumulated depreciation and amortization	17,813,045	17,447,191
Less reserve for regulatory disallowances (Note 11)	1,308,460	1,308,460
Net electric plant	16,504,585	16,138,731
INVESTMENTS	34,202	28,919
CURRENT ASSETS		
Cash in banks	5,657	5,451
Temporary cash investments – at cost	–	226,350
Cash and cash equivalents	5,657	231,801
Special deposits	22,187	22,171
Accounts receivable:		
Customers (Notes 9 and 14)	158,947	85,010
Other	64,863	39,840
Allowance for uncollectible accounts	(2,568)	(2,931)
Inventories – at average cost:		
Materials and supplies	179,188	174,977
Fuel stock	89,982	86,068
Prepaid taxes	28,226	10,771
Other current assets	15,947	22,953
Total current assets	562,429	670,660
DEFERRED DEBITS		
Unamortized regulatory assets:		
Debt reacquisition costs	177,907	109,708
Cancelled lignite unit costs	24,383	25,563
Rate case costs	49,609	48,328
Litigation and settlement costs	72,685	72,685
Under-recovered fuel revenue	14,562	32,950
Other deferred debits	63,898	38,615
Total deferred debits	403,044	327,849
Less reserve for regulatory disallowances (Note 11)	72,685	72,685
Net deferred debits	330,359	255,164
Total	$17,431,575	$17,093,474

See accompanying Notes to Financial Statements.

TEXAS UTILITIES ELECTRIC COMPANY

BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

	June 30, 1992 (Unaudited)	December 31, 1991 (Audited)
	Thousands of Dollars	
CAPITALIZATION		
Common stock – without par value:		
Authorized shares – 180,000,000		
Outstanding shares:		
June 30, 1992, 145,000,000		
December 31, 1991, 141,125,000	$ 4,516,025	$ 4,316,463
Retained earnings	1,428,738	1,424,974
Total common stock equity	5,944,763	5,741,437
Preferred stock:		
Not subject to mandatory redemption	1,007,728	1,007,728
Subject to mandatory redemption	420,556	425,758
Long-term debt, less amounts due currently	7,011,688	7,253,626
Total capitalization	14,384,735	14,428,549
CURRENT LIABILITIES		
Notes payable:		
Parent	295,300	–
Banks	250,000	250,000
Long-term debt due currently	158,437	82,522
Total (to be refinanced)	703,737	332,522
Accounts payable:		
Affiliates	114,321	109,288
Other	138,550	149,950
Dividends declared	30,067	30,225
Customers' deposits	53,693	52,159
Taxes accrued	175,859	251,363
Interest accrued	183,451	185,923
Other current liabilities	73,133	72,862
Total current liabilities	1,472,811	1,184,292
DEFERRED CREDITS AND OTHER NONCURRENT LIABILITIES		
Accumulated deferred federal income taxes	768,281	658,585
Unamortized federal investment tax credits	717,684	727,896
Other deferred credits and noncurrent liabilities	88,064	94,152
Total deferred credits and other noncurrent liabilities	1,574,029	1,480,633
COMMITMENTS AND CONTINGENCIES (Notes 2 and 13)		
Total	$17,431,575	$17,093,474

See accompanying Notes to Financial Statements.

TEXAS UTILITIES ELECTRIC COMPANY

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Electric Plant — Electric plant is stated at original cost. The cost of property additions to electric plant includes labor and materials, applicable overhead and payroll-related costs and an allowance for funds used during construction.

Allowance For Funds Used During Construction — Allowance for funds used during construction (AFUDC) is a cost accounting procedure whereby amounts based upon interest charges on borrowed funds and a return on equity capital used to finance construction are added to electric plant. The accrual of AFUDC is in accordance with generally accepted accounting principles for the industry, but does not represent current cash income.

Texas Utilities Electric Company (Company) is capitalizing AFUDC, compounded semi-annually, on expenditures for ongoing construction work in progress (CWIP) and nuclear fuel in process not otherwise allowed in rate base by regulatory authorities. In 1990 and 1991, the Company used a net-of-tax rate of 9.0% and 10.4%, respectively, on projects commenced before March 1, 1986, and a gross rate of 10.5% and 12.0%, respectively, on projects commenced thereafter. The net and gross rates were changed for 1992 to 9.2% and 10.8%, respectively. Rates were determined on the basis of, but are less than, the cost of capital used to finance the construction program.

Depreciation of Electric Plant — Depreciation is generally based upon an amortization of the original cost of depreciable properties (net of regulatory disallowances) on a straight-line basis over the estimated service lives of the properties. Depreciation also includes an amount for Comanche Peak nuclear generating station (Comanche Peak) decommissioning costs which is being accrued over the life of the unit and deposited to an external trust fund. (See Note 13.)

Nuclear Fuel and Refueling Outage Costs — The amortization of nuclear fuel in the reactor (net of regulatory disallowances) is calculated on the units of production method and, subsequent to commercial operation, is included in nuclear fuel expense. The Company accrues a provision for costs anticipated to be incurred during the next scheduled Comanche Peak Unit 1 refueling outage.

Revenues — Revenues include billings under approved rates (including a fixed fuel factor) applied to meter readings each month on a cycle basis and, beginning January 1, 1992, an accrual of base rate revenue for energy provided after cycle billing but not billed through the end of each month (see Note 14). Revenues also include an amount for under- or over-recovery of fuel revenue representing the difference between actual fuel cost and billings on the approved fixed fuel factor and a provision that generally allows recovery through a Power Cost Recovery Factor, on a monthly basis, of the capacity portion of purchased power cost from cogenerators not included in base rates. The fuel portion of purchased power cost is included in the fixed fuel factor. Pursuant to a Public Utility Commission of Texas (PUC) rule, the Company is required to refund over-recovered fuel revenue if the amount of over-recovery, including interest, exceeds the lesser of $40 million or 4% of its annual known or reasonably predictable fuel costs most recently approved by the PUC. Reconciliation of fuel costs is to be made in a general rate case or a reconciliation proceeding. Reconciliation may be requested only if it has either been over one year since the utility's last final reconciliation or the utility has materially under-recovered its known or reasonably predictable fuel costs.

Federal Income Taxes — The Company is included in the consolidated federal income tax return of Texas Utilities Company (Texas Utilities) and its subsidiaries (System Companies), and federal income taxes are allocated to all System Companies based upon their taxable income or loss. Deferred federal income taxes are currently provided for timing differences between book and taxable income (including the provision for regulatory disallowances). Generally, such differences result primarily from the use of liberalized depreciation and cost recovery deductions allowable under the Internal Revenue Code, the under- or over-

1. SIGNIFICANT ACCOUNTING POLICIES — (concluded)

recovery of fuel revenue and unbilled revenues accrued for tax purposes. Investment tax credits are normally amortized to income over the estimated service lives of the properties. (See Note 7 for pending change in accounting for income taxes.)

Cash Flows — For purposes of reporting cash flows, temporary cash investments purchased with a remaining maturity of three months or less are considered to be cash equivalents.

Supplemental schedules of cash payments are provided below:

	Six Months Ended June 30,		Twelve Months Ended June 30,	
	1992	1991	1992	1991
	Thousands of Dollars			
CASH PAYMENTS:				
Interest (net of amounts capitalized)	$292,126	$281,592	$616,379	$527,817
Income taxes	–	12,600	57,725	62,901

2. AFFILIATES

Texas Utilities provides common stock capital and partial requirements for short-term financing to the Company. Texas Utilities has three other subsidiaries which perform specialized services for the System Companies, including the Company: Texas Utilities Services Inc. provides financial, accounting, computer, telecommunications, shareholder services and other administrative services at cost; Texas Utilities Fuel Company (Fuel Company) owns a natural gas pipeline system, acquires, stores and delivers fuel gas and provides other fuel services at cost for the generation of electric energy by the Company; and Texas Utilities Mining Company (Mining Company) owns, leases and operates fuel production facilities for the surface mining and recovery of lignite at cost for use at the Company's generating stations.

The Company has entered into agreements with Fuel Company to procure certain fuels and related services and with Mining Company for the procurement and production of lignite; payments are at cost for the services received and are required by the agreements to be "at least equivalent in the aggregate to the annual charge to income on the books" of Fuel Company and of Mining Company. The Company is, in effect, obligated for the principal, $369,520,000 at June 30, 1992, and interest on long-term notes of Fuel Company and of Mining Company through payments described above. Such notes mature at various dates through 2001 and have interest rates ranging from 8.50% to 10.85%.

3. SHORT-TERM FINANCING

The Company and Texas Utilities have joint lines of credit aggregating $1,025,000,000 under a credit facility agreement with a group of commercial banks. The facility, for which Texas Utilities pays a fee, will be reduced in 1993, 1994 and 1995 by $325,000,000, $350,000,000 and $350,000,000, respectively. This credit facility may be used to finance new construction, as backup for commercial paper and for general corporate purposes. At June 30, 1992, the Company had $250,000,000 outstanding under this credit facility. From time to time Texas Utilities makes short-term loans to the Company.

4. COMMON AND PREFERRED STOCKS

	Shares Outstanding		Amount	
	June 30, 1992	December 31, 1991	June 30, 1992	December 31, 1991
			Thousands of Dollars	
Common stock - without par value: authorized shares - 180,000,000	145,000,000	141,125,000	$4,516,025	$4,316,463

Preferred stock — cumulative, without par value; entitled upon liquidation to $100 a share; authorized shares — 17,000,000:

Series Groups		Shares Outstanding		Amount		Redemption Price Per Share (Before Adding Accumulated Dividends)			
		June 30,	December 31,	June 30,	December 31,	Current		Eventual Minimum	
From	To	1992	1991	1992	1991	From	To	From	To
				Thousands of Dollars					
Not Subject to Mandatory Redemption									
$4.00	$ 4.84	1,142,942	1,142,942	$ 114,588	$ 114,588	$101.79	$112.00	$101.79	$112.00
5.08	7.80	1,629,675	1,629,675	163,270	163,270	102.40	103.60	102.40	103.60
8.16	8.92	1,999,475	1,999,475	198,642	198,642	101.92	104.09	101.00	103.60
9.32	11.32	1,550,000	1,550,000	153,205	153,205	102.33	107.55	100.00	102.73
Adjustable rate (a)		1,850,000	1,850,000	181,713	181,713	103.00	103.00	100.00	100.00
Stated rate auction(b)		1,000,000	1,000,000	98,164	98,164	—	—	100.00	100.00
Flexible adjustable rate (c)		1,000,000	1,000,000	98,146	98,146	—	—	100.00	100.00
Total		10,172,092	10,172,092	$1,007,728	$1,007,728				
Subject to Mandatory Redemption(d)									
$8.92	$ 9.48	1,433,300	1,474,250	$ 142,744	$ 146,781	$103.00	$105.00	$100.00	$100.00
9.64	10.375	2,794,000	2,808,000	277,812	278,977	105.00	107.56	100.00	100.00
Total		4,227,300	4,282,250	$ 420,556	$ 425,758				

(a) Adjustable rate series A bears a dividend rate for the period ended July 31, 1992 of 6.50% per annum and adjustable rate series B bears a dividend rate for the period ended June 30, 1992 of 7.00% per annum, both of which are based on a fixed liquidation price of $100 per share.

(b) Stated rate auction series A bears a dividend rate of 8.24% per annum for the fixed dividend period through September 30, 1992, based on a fixed liquidation price of $100 per share. The dividend rate for each 49 day period thereafter will be determined on the basis of certain auction procedures. All redemptions are at a price of $100 per share plus accumulated dividends. The shares are not redeemable prior to September 29, 1992.

(c) Flexible adjustable rate series A and B bear a dividend rate for the period ended June 30, 1992 of 8.70% per annum, based on a fixed liquidation price of $100 per share.

(d) Certain issues may not be redeemed prior to 1995.

As of July 1992, the Company has redeemed or otherwise acquired 14,000 shares of its $10.08 series, 20,000 shares of its $10.00 series and 66,700 shares of its $9.48 series cumulative preferred stock which fulfills its mandatory redemption requirements until April 1, 1993.

For additional information concerning dividend rates and mandatory redemption requirements for preferred stock, see Note 5 to Financial Statements in the Company's Form 10-K for the year 1991.

5. RETAINED EARNINGS RESTRICTIONS

The Company's articles of incorporation, the mortgages, as supplemented, and the debenture agreements contain provisions which, under certain conditions, restrict distributions on or acquisitions of its common stock. At June 30, 1992, $177,065,000 of retained earnings were thus restricted as a result of the provisions of such articles of incorporation.

The articles of incorporation restriction provides in effect that the Company shall not pay any common dividend which would reduce retained earnings to less than one and one-half times annual preferred dividend requirements. The mortgage restrictions are based primarily on the replacement fund requirements of the mortgages. The restriction contained in the debenture agreements is designed to maintain the aggregate preferred and common stock equity at or above 33-1/3% of total capitalization.

6. LONG-TERM DEBT, less amounts due currently

	Maturity Groups		Interest Rate Groups		June 30,	December 31,
	From	To	From	To	1992	1991
					Thousands of Dollars	
First mortgage bonds:						
	1993	1997	4-1/4%	9-1/2%	$ 299,000	$ 356,000
	1998	2002	6-5/8	10-3/8	957,000	690,000
	2003	2007	7-1/2	10-1/8	800,000	750,000
	2008	2012	9-3/8	11-5/8	325,000	400,000
	2013	2017	9-1/4	12	950,000	1,675,000
	2018	2022	8-7/8	11-3/8	1,225,000	950,000
Pollution control series:						
	2007	2022	6-5/8	10	1,073,000	990,000
Taxable pollution control series: (a)						
	—	2021	Various		275,000	275,000
Sinking fund debentures:						
	1993	1994	6-5/8	7-3/4	11,950	29,053
Secured medium-term notes, series A through C:						
	1994	2003	8.72	10.50	600,000	600,000
Total					6,515,950	6,715,053
Pollution control revenue bonds:						
	2004	2009	5.70	7-5/8	158,930	158,930
Promissory note, obligation and debt assumed for purchase of electric plant:(b)						
	1993	2021	8.25	9.73	394,633	437,773
Unamortized premium and discount					(57,825)	(58,130)
Total long-term debt, less amounts due currently					$7,011,688	$7,253,626

(a) Taxable pollution control series consist of four series: $75,000,000 of Series 1991A at 3.95% at June 30, 1992; $50,000,000 of Series 1991B at 8.10% through June 1, 1993; $50,000,000 of Series 1991C at 8.49% through June 1, 1994; and $100,000,000 of Series 1991D at 8.85% through June 1, 1995. Series 1991A bonds are in a flexible mode and while in such mode will be remarketed for periods of less than 270 days, and are secured by an irrevocable letter of credit. The interest rates on Series 1991B through Series 1991D bonds will be repriced at various mandatory tender dates beginning in 1993. The Company has existing lines of credit that would allow refinancing of the bonds on a long-term basis should remarketing prove unsuccessful.

(b) In 1988, the Company purchased the ownership interest in Comanche Peak of Brazos Electric Power Cooperative and issued a promissory note payable over 33 years. The note is secured by a mortgage on the acquired interest. Also in 1988, the Company purchased the ownership interest in Comanche Peak of the Texas Municipal Power Agency under an installment sale agreement obligating the Company to make semi-annual payments through 1993. The transaction is treated as a completed purchase of electric plant; however, under terms of the agreement, legal title to the purchased assets passes to the Company at the time of, and in proportion to, each payment made. In 1990, the Company purchased the ownership interest in Comanche Peak of Tex-La Electric Cooperative of Texas, Inc. (Tex-La) and assumed debt of Tex-La payable over approximately 32 years. The assumption is secured by a mortgage on the acquired interest. Texas Utilities has guaranteed these various payments.

6. LONG-TERM DEBT, less amounts due currently — (concluded)

At June 30, 1992 the Company had funds on deposit with the trustee to effect the redemption on July 1, 1992, of $150,000,000 of its First Mortgage and Collateral Trust Bonds, 10-1/2% series due July 1, 2017, $150,000,000 of its First Mortgage and Collateral Trust Bonds, 9-1/2% series due July 1, 1997, and $30,000,000 of its Dallas Power & Light Company First Mortgage Bonds, 9-3/8% series due June 1, 2000; accordingly, such issues are reflected as extinguished in the accompanying financial statements.

From time to time, various principal amounts of first mortgage bonds have been redeemed by the Company prior to maturity. The debt reacquisition costs have been deferred and are being amortized over the remaining lives of the bonds retired.

The total amounts of sinking fund debentures authorized in the debenture agreements have been issued. The Company's first mortgage and collateral trust bonds may be issued in additional amounts, without limitation as to the maximum thereof, but limited by property, earnings and other provisions of the mortgages. None of the long-term debt is pledged, held by or for account of the issuer, or held in its sinking or other special funds. Electric plant of the Company is generally subject to the liens of its mortgages.

7. FEDERAL INCOME TAXES

The details of federal income taxes are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	1992	1991	1992	1991	1992	1991
			Thousands of Dollars			
Charged (credited) to operating expenses:						
Current	$18,152	$ 1,886	$ 17,788	$ 3,497	$ 95,042	$ 72,086
Deferred – net (Note 11)	36,895	24,402	57,258	48,048	94,742	109,541
Investment tax credits – net	(5,081)	(2,785)	(10,161)	(8,064)	(15,416)	(15,075)
Total to operating expenses	49,966	23,503	64,885	43,481	174,368	166,552
Charged (credited) to other income:						
Current	(6,070)	445	(11,502)	913	(17,093)	1,772
Deferred – net (Note 11)	5,865	136	11,872	279	(306,402)	514
Investment tax credits (Note 11)	–	–	–	–	(40,180)	–
Total to other income	(205)	581	370	1,192	(363,675)	2,286
Charged to cumulative effect of a change in accounting for unbilled revenue – deferred	–	–	41,679	–	41,679	–
Total federal income taxes	$49,761	$24,084	$106,934	$44,673	$(147,628)	$168,838

In February 1992, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", which is effective for fiscal years beginning after December 15, 1992. The Statement, among other things, requires the liability method of recognition for all temporary differences, requires that deferred tax liabilities and assets be adjusted for an enacted change in tax laws or rates and prohibits net-of-tax accounting and reporting. Certain provisions of the Statement provide that regulated enterprises are permitted to recognize such adjustments as regulatory assets or liabilities if it is probable that such amounts will be recovered from or returned to customers in future rates. Although application of the Statement will increase both total assets and liabilities, these requirements are not expected to have a material effect on the Company's financial position or results of operations.

8. RETIREMENT PLAN AND OTHER POSTRETIREMENT BENEFITS

The Company has a retirement plan covering substantially all employees. An employee's benefits are based on years of accredited service and average annual earnings received during the three years of highest earnings. The costs of the plan were determined by independent actuaries. Contributions to the plan were determined using the frozen attained age method which is one of the several actuarial methods allowed by the Employee Retirement Income Security Act of 1974. For financial reporting purposes, pension cost has been determined using the projected unit credit actuarial method. The cumulative difference between pension cost as determined for financial reporting purposes and contributions to the plan is recorded either as prepaid pension cost or as accrued pension liability.

In addition to the retirement plan, the Company offers certain health care and life insurance benefits to active and retired employees. The costs of such benefits are generally recognized as claims are paid.

8. RETIREMENT PLAN AND OTHER POSTRETIREMENT BENEFITS — (concluded)

In December 1990, the FASB issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", which is effective for fiscal years beginning after December 15, 1992. The Statement requires a change in the accounting for a company's obligation to provide health care and certain other benefits to its retirees from the "pay-as-you-go" method to an accrual method and requires the cost of the obligation to be recognized in the period from employment date until full eligibility for benefits. The Company expects that the accrual of benefits cost will either be recovered through future rates beginning after the commercial operation of Comanche Peak Unit 2, which is similar to the current treatment of retirement plan costs, or, pursuant to certain provisions of the Statement, that a regulatory asset will be recorded to reflect amounts, if any, whose future recovery is probable through rates as costs are paid. Therefore, this Statement is not expected to have a material effect on the Company's financial position or results of operations.

9. SALES OF ACCOUNTS RECEIVABLE

In 1989, the Company entered into a five year agreement with certain financial institutions whereby the Company is entitled to sell and such financial institutions are required to purchase, on an ongoing basis, up to an aggregate of $300,000,000 of undivided interests in customer accounts receivables. At June 30, 1992, and December 31, 1991, $300,000,000 and $200,000,000, respectively, of such receivables were owned by financial institutions. Customer accounts receivables include unbilled revenues.

10. COMANCHE PEAK NUCLEAR GENERATING STATION

The Company is operating one nuclear-fueled generating unit and constructing a second unit at Comanche Peak, each of which is designed for a capability of 1,150 megawatts. The Company owns all of the plant. (See Note 6.)

The Company is subject to the jurisdiction of the Nuclear Regulatory Commission (NRC) with respect to nuclear power plants. NRC regulations govern the granting of licenses for the construction and operation of nuclear power plants and subject such plants to continuing review and regulation. In April 1990, the NRC issued a full power operating license for Unit 1. The construction permit for Unit 2 is in effect and has been extended until a "latest date for completion" of August 1, 1995.

In July 1988, NRC proceedings before an Atomic Safety and Licensing Board, which involved an intervenor, were dismissed pursuant to a joint motion for dismissal filed by the Company, the intervenor and the NRC Staff. Under the terms of this motion, a representative of the intervenor was appointed as a member of the Operations Review Committee (ORC) for Comanche Peak. The ORC is required by the Comanche Peak technical specifications and reviews operational and other safety related matters.

At various times, the Company has paid civil penalties to the NRC for violations of NRC regulatory requirements.

Unit 1 and common facilities were placed in commercial operation on August 13, 1990, and Unit 2 is scheduled for service for the peak season of 1993. At June 30, 1992, the Company had $3.871 billion invested in Unit 2 (net of $485 million included in the reserve for regulatory disallowances required by order of the PUC), including AFUDC. The estimated cash requirements in 1992 and 1993 to complete Unit 2 are approximately $450 million in the aggregate. Due to the uncertainty of regulatory treatment and the exact month of completion, no estimate for AFUDC accruals on Unit 2 is included. Such accrual approximated $23 million for June 1992.

11. RATE INCREASE

In January 1990, the Company made applications to the PUC and to its municipal regulatory authorities for upward adjustments in rates for electric service throughout its service area which would increase operating revenues by approximately $442 million, or 10.2%, based upon the test year ended June 30, 1989. Such request reflected costs associated with the commercial operation of Unit 1 of Comanche Peak. On August 13, 1990, pursuant to rules of the PUC, the Company placed its requested rate increase into effect applicable to energy sales on or after such date.

In August 1991, the PUC issued a final order in the rate case. This order was revised and reissued in September 1991. The order provided for a total revenue increase of approximately $442 million and included $695 million of CWIP in rate base to support the revenue increase. It also included a prudence disallowance of $472 million with respect to certain Comanche Peak costs relating to 87.8% of the Company's ownership interest in both units of Comanche Peak. With respect to the Company's reacquisition of the remaining 12.2% minority owner interest in Comanche Peak, the order included an additional disallowance of $909 million. In addition, the order provided for refunds aggregating $56 million, including interest, principally with respect to fuel gas costs considered imprudent by the PUC. Such amount is being refunded to customers, with interest, over a two year period that began in November 1991.

The Company strongly disagrees with the order and in November 1991 filed a petition in the 250th Judicial District Court of Travis County, Texas, requesting a reversal and remand of the order. Other parties to the PUC proceeding have also filed appeals with respect to various portions of the order. The Company is unable to predict the outcome of these appeals.

In September 1991, the Company recorded a charge against earnings, as a provision for regulatory disallowances, of $1.381 billion ($1.011 billion after tax) as a result of the PUC order. The charge is comprised of the $472 million of costs associated with Comanche Peak that were disallowed and the disallowance of $909 million related to the minority owner reacquisitions. Also, the Company recorded a charge of $56 million including interest ($37 million after tax), representing principally fuel gas costs disallowed by the order. As a result, the Company will be precluded from incurring certain forms of debt and issuing additional shares of preferred stock for a period of approximately twelve months from the date of recording such disallowances.

11. RATE INCREASE — (concluded)

The following schedule details the components of the charges and their effect on net income (loss) for the twelve month period ended June 30, 1992:

	Provision for Regulatory Disallowances	Provision for Refunds and Related Interest	Total
		Thousands of Dollars	
OPERATING REVENUES	$ —	$(36,584)	$ (36,584)
OPERATING EXPENSES			
Operating expenses excluding federal income tax	(4,213)	—	(4,213)
Federal income taxes — deferred	1,432	(19,165)	(17,733)
OPERATING INCOME	2,781	(17,419)	(14,638)
OTHER INCOME (LOSS)			
Provision for regulatory disallowances	(1,381,145)	—	(1,381,145)
Federal income taxes — deferred	327,178	—	327,178
Federal income taxes — investment tax credits	40,180	—	40,180
Total other income (loss)	(1,013,787)	—	(1,013,787)
TOTAL INCOME	(1,011,006)	(17,419)	(1,028,425)
OTHER INTEREST	—	19,678	19,678
EFFECT ON NET INCOME (LOSS)	$(1,011,006)	$(37,097)	$(1,048,103)

Pending the outcome of the appeal, the disallowed Comanche Peak related costs are reflected as reserves for regulatory disallowances on the Company's balance sheet.

In August 1990, the Company ceased AFUDC accruals and began depreciation provisions on approximately $1.3 billion of investment in Comanche Peak Unit 1 incurred after the end of the June 30, 1989 test year. Depreciation and rate of return on this investment are not provided for in current electric service rates but will be included in the next rate increase request of the Company. As a result, the Company's earnings and liquidity will continue to be affected until the investment incurred subsequent to the end of the test year is included in rates.

Unit 2 at Comanche Peak is scheduled for operation for the peak season of 1993 and the Company believes it will be necessary to request additional rate relief from its regulatory authorities, the amount and exact timing of which are presently undetermined. Upon commencement of operation of Unit 2, the Company currently expects to cease accrual of AFUDC on the Unit 2 investment that exceeds the $695 million included in rate base, to begin depreciation accruals on the accumulated investment in Unit 2 and to incur operation and maintenance expenses on the generating unit; all of which are not currently included in the Company's present electric service rates.

A request to place additional amounts of Comanche Peak investment in rate base will be subject to a review by the PUC for prudence of costs incurred. In connection with the September 1991 rate order, the PUC essentially reviewed costs incurred through June 1989 on Unit 2 and through fuel load in February 1990 on Unit 1. At June 30, 1992, the Company had approximately $2.2 billion invested in Comanche Peak that had not been reviewed for prudence. The Company cannot predict the outcome of any future prudence review.

12. OPERATIONS REVIEW AND COST REDUCTION

In April 1992, the System Companies commenced a plan to better prepare the System Companies to operate in the rapidly changing business environment of the electric utility industry and to reduce costs. All aspects of System Companies' operations are being examined to identify strategies for effective changes in business processes and operating practices. Implementation of any resulting changes in processes and practices will begin in 1992 and extend into 1993.

As part of this plan, the System Companies announced on June 1, 1992 an offer of enhanced voluntary early retirement to approximately 3,700 of the System Companies' 15,200 employees. All other regular full-time employees have been offered a voluntary severance program. The election period for these programs ends on September 1, 1992, with actual separation dates as late as November 1, 1992; accordingly, the Company is unable to predict the costs associated with these programs. The Company intends to defer such costs and to request recovery thereof in its next rate case to be filed in connection with the scheduled operation of Comanche Peak Unit 2.

13. COMMITMENTS AND CONTINGENCIES

Construction Program

Construction expenditures, excluding AFUDC, for the years 1992 through 1994 are estimated at $740,000,000, $664,000,000 and $837,000,000, respectively. The effects of inflation, additional regulatory requirements, revisions in the expected demand growth or other unknown factors could affect estimated completion costs and in service dates of generating units under construction. Commitments in connection with the construction program are generally revocable subject to reimbursement to manufacturers for expenditures incurred or other cancellation penalties.

Clean Air Act

In November 1990, the federal Clean Air Act Amendments of 1990 (Clean Air Act) were enacted which, among other things, placed limits on the sulfur dioxide emissions produced by generating units. The Clean Air Act requires that fossil-fueled plants meet new sulphur dioxide emission standards by 1995 (Phase I) and additional sulfur dioxide emission standards by 2000 (Phase II). The Company's generating units are not affected by the Phase I requirements. The Phase II requirements are currently met by all but four of the Company's generating units. Because the sulfur dioxide emissions from these four units are relatively low and alternatives are available to enable these units to reduce sulphur dioxide emissions, compliance with the applicable Phase II sulfur dioxide requirements is not expected to have a significant impact on the Company.

The Company has not finalized a compliance plan due to the uncertainty of the requirements which the Environmental Protection Agency (EPA) may include in its regulations. The Company intends to utilize internal allocation of emission allowances within its system and, if necessary, to purchase emission allowances to enable both existing and future electric generating units to meet the requirements of the Clean Air Act. The Company is unable to predict the extent to which it may generate excess allowances or will be able to acquire allowances from others if needed.

Other provisions of the Clean Air Act may require the Company to take other actions. The Company's lignite-fired generating units currently meet the required nitrogen oxide limits in the Clean Air Act. The requirements of the Clean Air Act for ozone nonattainment areas may require nitrogen oxide emission reductions at the Company's natural gas-fired units in the Dallas-Fort Worth area by 1996. The Clean Air

13. COMMITMENTS AND CONTINGENCIES — (continued)

Act also requires studies over a four year period by the EPA to assess the potential for toxic emissions from utility boilers. The Company is unable to predict whether any reductions in toxic emissions will ultimately be required. Continuous emission monitoring systems are required by the Clean Air Act to be installed by 1995 on all of the Company's fossil-fueled units.

Only certain parts of the regulations implementing the Clean Air Act have been adopted. Until more of these regulations have been promulgated, the Company will not be able to fully determine the cost or method of compliance for these requirements. The Company believes that it can meet the requirements necessary to be in compliance with these provisions as they are developed. Capital requirements related to the Clean Air Act are included in the Company's construction program. Any additional capital costs, as well as any increased operating costs associated with new requirements or compliance measures, are expected to be recovered through rates, as similar costs have been recovered in the past.

Purchased Power Contracts

The Company has entered into purchased power contracts to purchase portions of the generating output of certain cogenerators and small power producers through the year 2005. These contracts provide for capacity payments subject to a facility meeting certain operating standards and energy payments based on the actual power taken under the contracts. The cost of these purchased power contracts is recovered currently through base rates, power cost and fuel recovery factors applied to customer billings.

Leases

The Company has entered into operating leases covering various facilities and properties including such items as combustion turbines, transportation, data processing equipment and office space.

Cooling Water Contracts

The Company has entered into contracts with public agencies to purchase cooling water for use in the generation of electric energy. In connection with certain contracts, the Company has agreed, in effect, to guarantee the principal, $41,735,000 at June 30, 1992, and interest on bonds issued to finance the reservoirs from which the water is supplied. The bonds mature at various dates through 2011 and have interest rates ranging from 5-1/2 to 7%. The Company is required to make periodic payments equal to such principal and interest. Payments made by the Company are net of amounts assumed by a third party under such contracts. In addition, the Company is obligated to pay certain variable costs of operating and maintaining the reservoirs. The Company has assigned to a municipality all contract rights and obligations of the Company in connection with $94,240,000 remaining principal amount of bonds at June 30, 1992, issued for similar purposes which had previously been guaranteed by the Company. The Company is, however, contingently liable in the unlikely event of default by the municipality.

Nuclear Insurance

With regard to liability coverage, the Price-Anderson Act (Act), as most recently amended in 1988 to extend its effectiveness through 2002, was enacted by Congress to provide financial protection for the public in the event of a significant nuclear power plant incident. The Act sets the statutory limit of public liability for a single nuclear incident currently at $7.8 billion and requires nuclear power plant operators to provide financial protection for this amount. As required, the Company provides this financial protection for a nuclear incident at Comanche Peak resulting in public bodily injury and property damage through a

13. COMMITMENTS AND CONTINGENCIES — (concluded)

combination of private insurance and industry-wide retrospective payment plans. Under these arrangements, the Company is subject to an assessment of up to $66.15 million in the event of a nuclear incident at any nuclear plant in the United States. Assessments are limited to $10 million per operating licensed reactor per year per incident and are subject to increases for inflation every five years.

With respect to nuclear decontamination and property damage insurance, NRC regulations require that nuclear plant license-holders maintain not less than $1.06 billion of such insurance and require the proceeds thereof to be used to place a plant in a safe and stable condition and to decontaminate it pursuant to a plan submitted to and approved by the NRC before the proceeds can be used for plant repair or restoration or to provide for premature decommissioning. The Company maintains nuclear decontamination, premature nuclear decommissioning and property damage insurance for Comanche Peak in the amount of $2.515 billion, above which the Company is self-insured. Under a portion of this insurance, the Company is subject to a maximum annual assessment of $8 million.

In conjunction with commercial operation of Comanche Peak Unit 1, the Company began maintaining Extra Expense Insurance to cover the additional costs of obtaining replacement power from another source if Comanche Peak Unit 1 is out of service for more than twenty-one weeks as a result of covered direct physical damage. Under this coverage, the Company is subject to a maximum assessment of $5 million per year.

Nuclear Decommissioning and Disposal of Spent Fuel

The Company has established a reserve (included in accumulated depreciation) for the decommissioning of Comanche Peak Unit 1, whereby decommissioning costs are being recovered from customers over the life of the plant and deposited to an external trust fund (included in other investments). Recovery of these costs began in August 1990, when Comanche Peak Unit 1 began commercial operation. As of June 30, 1992, $16,422,000 has been deposited to the external trust fund for decommissioning. Based on a site-specific study during 1988 using then-current dollars, decommissioning costs for Comanche Peak Unit 1 were estimated to be $193,000,000.

The Company has a contract with the United States Department of Energy for the future disposal of spent nuclear fuel at a cost of one mill per kilowatt-hour of Comanche Peak Unit 1 net generation. The disposal fee is included in nuclear fuel expense.

General

In addition to the above, the Company is involved in various legal and administrative proceedings which, in the opinion of the Company, should not have a material effect upon its financial position or results of operations.

14. CHANGE IN ACCOUNTING FOR UNBILLED REVENUE

Effective January 1, 1992, the Company began recording base rate revenue for energy sold but not billed through the end of each month to achieve a better matching of revenues and expenses. Prior to the change in accounting method, revenues were recognized based on customer billings on a cycle basis. The effect of the change in accounting increased net income by $39,910,000 for the three months ending June 30, 1992. Net income increased for the six-month period, and the net loss was partially offset for the twelve-month period, by $121,496,000, of which $80,907,000 represents the cumulative effect of the change in accounting principle at January 1, 1992. Pro forma effects, assuming retroactive application of recording unbilled revenues, are presented below:

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	1992	1991	1992	1991	1992	1991
			Thousands of Dollars			
As previously reported:						
Net income (loss)	$187,757	$177,939	$384,664	$329,925	$(234,435)	$829,417
Pro forma:						
Net income (loss)	$187,757	$215,249	$303,757	$347,123	$(329,824)	$840,730

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INDEPENDENT ACCOUNTANTS' REPORT

Texas Utilities Electric Company:

We have made a review of the condensed balance sheet of Texas Utilities Electric Company as of June 30, 1992, and the related condensed statements of income for the three-month, six-month and twelve-month periods ended June 30, 1992 and 1991, and cash flows for the six-month and twelve-month periods ended June 30, 1992 and 1991, in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of Texas Utilities Electric Company as of December 31, 1991, and the related statements of income, retained earnings and cash flows for the year then ended (not presented herein); and, have issued our report thereon dated March 13, 1992, which expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 1991, is fairly stated in all material respects in relation to the financial statements from which it has been derived.

Deloitte & Touche

DELOITTE & TOUCHE

August 11, 1992

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Liquidity and Capital Resources

For information concerning liquidity and capital resources, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Form 10-K for the year 1991. No significant changes or events which might affect the financial condition of the Company have occurred subsequent to year-end other than as disclosed in this report.

Although the Company is currently restricted from issuing certain forms of debt and additional shares of preferred stock as a result of recording the disallowances resulting from its recent rate order (see below), the Company is able to replace existing debt under its mortgages and also expects to be able to issue additional securities after the twelve-month period following the recording of the disallowances. Financings to date in 1992 by the Company include the following:

Long-Term Debt:

Month	Principal Amount	Description
February	$150,000,000	8-1/8% First Mortgage and Collateral Trust Bonds due 2002
February	175,000,000	8-7/8% First Mortgage and Collateral Trust Bonds due 2022
April	50,000,000	6-3/4% Collateralized Pollution Control Revenue Bonds due 2022
April	100,000,000	8-1/4% First Mortgage and Collateral Trust Bonds due 2004
April	100,000,000	9% First Mortgage and Collateral Trust Bonds due 2022
June	150,000,000	7-1/8% First Mortgage and Collateral Trust Bonds due 1997
June	147,000,000	8% First Mortgage and Collateral Trust Bonds due 2002
June	33,000,000	6-5/8% Collateralized Pollution Control Revenue Bonds due 2022
Total	$905,000,000	

To date in 1992, the Company has redeemed or made principal payments of $1,078,824,000 on long-term debt and preferred stock, of which $1,030,000,000 represents the early redemption of higher coupon debt. In addition to the financings above, the Company plans to sell in August $175,000,000 of its First Mortgage and Collateral Trust Bonds, 6-3/8% series due August 1, 1997; $150,000,000 of its First Mortgage and Collateral Trust Bonds, 7-3/8% series due August 1, 2001; and $175,000,000 of its First Mortgage and Collateral Trust Bonds, 8-1/2% series due August 1, 2024. The funds acquired from these sales, together with funds from operation will be used to redeem the following series of the Company's First Mortgage and Collateral Trust Bonds: $200,000,000 of its 9-3/4% series due May 1, 2016 and $300,000,000 of its 9-1/2% series due December 1, 2016. The replacement of higher coupon debt during 1992 will reduce interest expense by approximately $25,000,000 for the year. Early redemptions of long-term debt and preferred stock may occur from time to time in amounts presently undetermined.

The Company expects to sell additional securities as needed, subject to the current limitations previously discussed. The Company expects to sell additional securities to replace existing debt and, when permitted, as otherwise needed from time to time, other securities including the possible future sale of up to $300,000,000 principal amount of First Mortgage and Collateral Trust Bonds currently registered with the Securities and Exchange Commission for offering pursuant to Rule 415 under the Securities Act of 1933. Sales of additional securities may occur from time to time in amounts and of types presently undetermined. The capitalization of the Company at June 30, 1992, consisted of approximately 49% long-term debt, 10% preferred stock and 41% common stock equity. For information regarding bank lines of credit and short-term financings of the Company, see Note 3 to Financial Statements.

In March 1992, the Company sold an additional $100,000,000 of its customer accounts receivables in connection with its existing agreement with certain financial institutions. (See Note 9 to Financial Statements.)

In November 1990, the federal Clean Air Act Amendments of 1990 (Clean Air Act) were enacted which, among other things, place limits on the sulfur dioxide emissions produced by generating units. The Clean Air Act requires that fossil-fueled plants meet new sulfur dioxide emission standards by 1995 (Phase I) and additional sulphur dioxide emission standards by 2000 (Phase II). The Company's generating units are not affected by Phase I requirements. The Phase II requirements are currently met by all but four of the Company's generating units. Other provisions of the Clean Air Act may require the Company to take other

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (Continued).

Liquidity and Capital Resources — (concluded)

actions; however, only certain parts of the regulations implementing requirements have been adopted. Until these regulations have been promulgated, the Company will not be able to fully determine the cost or method of compliance for these requirements. Although the Company is unable to fully determine the cost to comply with the Clean Air Act, it is not expected to have a significant impact on the Company.

In August 1990, the Company placed Comanche Peak Unit 1 in commercial operation and implemented its requested rate increase under bond, based on a test year ended June 30, 1989. In a September 1991 order, the Public Utility Commission of Texas (PUC) substantively approved the level of rates implemented under bond and, pursuant to this order, which has been appealed in state district court, the Company recorded the provision for regulatory disallowances of certain costs associated with Comanche Peak in the amount of $1.381 billion ($1.011 billion after tax). In addition, the Company recorded a charge of $56 million, including interest ($37 million after tax), representing principally fuel gas costs disallowed by the order. (For additional information regarding the rate decision, see Results of Operations and Note 11 to Financial Statements.) As a result, the Company will be precluded for a period of approximately twelve months from the date of recording such disallowances from incurring certain forms of debt and issuing additional shares of preferred stock. The approved rates have improved cash flows from operations and will reduce future financing requirements. Because of the Company's credit lines, sales of common stock and cash from operations, the Company does not anticipate a significant change in its ability to fund continuing operations and its capital requirements.

Also in August 1990, the Company ceased allowance for funds used during construction (AFUDC) accruals and began depreciation provisions on approximately $1.3 billion of investment in Comanche Peak Unit 1, incurred after the end of the June 30, 1989 test year. Depreciation and rate of return on this investment is not provided for in current electric service rates but will be included in the next rate increase request of the Company. As a result, the Company's earnings and liquidity will continue to be affected until the investment incurred subsequent to the end of the test year is included in rates. See Note 11 to Financial Statements regarding the Company's need for future rate increases.

Although the Company cannot predict the outcome of the appeals of the 1991 rate decision, future regulatory actions or any changes in economic and securities market conditions, no changes are expected in trends or commitments which might significantly alter its basic financial position.

In April 1992, the Texas Utilities Company and its subsidiaries (System Companies) commenced a plan to better prepare the System Companies to operate in the rapidly changing business environment of the electric utility industry and to reduce costs. All aspects of System Companies' operations are being examined to identify strategies for effective changes in business processes and operating practices. Implementation of any resulting changes in processes and practices will begin in 1992 and extend into 1993.

As part of this plan, the System Companies announced on June 1, 1992 an offer of enhanced voluntary early retirement to approximately 3,700 of the System Companies' 15,200 employees. All other regular full-time employees have been offered a voluntary severance program. The election period for these programs ends on September 1, 1992, with actual separation dates as late as November 1, 1992; accordingly, the Company is unable to predict the costs associated with these programs. The Company intends to defer such costs and to request recovery thereof in its next rate case to be filed in connection with the scheduled operation of Comanche Peak Unit 2.

Results of Operations

The following compares operating results for the three-, six- and twelve-month periods ended June 30, 1992 with the same periods ended June 30, 1991.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — (Continued).

Results of Operations — (continued)

Operating revenues decreased 1.7% for the six-month period and were relatively unchanged for the three- and twelve-month periods ended June 30, 1992. The following table details the factors contributing to these changes:

Factors	Increase (Decrease)		
	Three Months Ended	Six Months Ended	Twelve Months Ended
		Thousands of Dollars	
Base rate revenue	$(34,760)	$(61,386)	$ 63,007
Fuel revenue	(40,052)	(39,968)	(84,657)
Power cost recovery factor revenue	8,470	(275)	(37,833)
Unbilled revenue and other	65,058	63,262	62,094
Total	$ (1,284)	$(38,367)	$ 2,611

Base rate revenue for all periods was affected by lower energy sales. Energy sales decreased 5.6%, 5.5% and 4.0% for the three-, six- and twelve-month periods, respectively, due to decreased customer usage resulting from the effects of economic conditions and milder weather, partially offset by increased customers. The twelve-month period was affected by the rate increase placed in effect in August 1990 which increased base rate revenue approximately $147,000,000, including approximately $40,000,000 reclassified from power cost recovery revenue to base rate revenue. Fuel revenues have decreased for the three-, six- and twelve-month periods primarily due to decreased energy sales and a lower fuel factor in connection with the current rates, partially offset by a fuel refund in the prior period. The twelve-month period also includes a reduction of approximately $29,000,000 principally due to the PUC's order to refund disallowed fuel gas purchases incurred during the period from April 1983 to June 1989. (See Note 11 to Financial Statements.) The increase in unbilled revenue and other was primarily due to the accrual of unbilled revenue in the current period. (See Note 14 to Financial Statements.)

Fuel and purchased power expense decreased 6.6%, 4.2% and 2.7% for the three-, six- and twelve-month periods, respectively. The decrease for all periods was primarily due to reduced energy sales and the increased use of lower cost nuclear fuel. In the twelve-month period, the decrease was also due to a reduction in off-system power purchases.

Total operating expenses, excluding fuel and purchased power, increased 4.1%, 1.3% and 5.0% for the three-, six- and twelve-month periods, respectively. The increase in all periods was primarily due to increased taxes other than income and increased federal income taxes. Taxes other than income increased in all periods due primarily to increased property taxes, reflecting the effects of legislation creating county education districts. In January 1992, the Texas Supreme Court declared the legislation unconstitutional and instructed the State legislature to provide a revised law for school funding by June 1, 1993, with the current law to remain in effect pending action by the legislature. Federal income taxes increased for all periods due to deferred taxes associated with the recording of unbilled revenues and for changes in the amortization of tax rate differences due to recording the Company's rate order. The increase in total operating expenses, excluding fuel and purchased power, was partially offset by decreased operation and maintenance expense due to decreases in employee related costs and legal expenses, and management's efforts to further reduce other costs. Also, in the three- and six-month periods, depreciation and amortization expense decreased due to recording the disallowances associated with Comanche Peak Unit 1 in the Company's rate order.

AFUDC decreased 7.3%, 8.5% and 10.8% for the three, six and twelve months ended June 30, 1992, respectively, due primarily to the effect of the implementation of the rate order in October 1991 by placing $695 million of construction work in progress (CWIP) in rate base and the exclusion of $485 million of CWIP disallowed on Unit 2 of Comanche Peak. The decrease in the twelve-month period was also due to the full

Results of Operations — (concluded)

period's effect of the discontinuation of the accrual of AFUDC on Comanche Peak Unit 1 when the unit was placed in commercial operation in August 1990 and by the effect of the decrease in AFUDC rates in 1992. (See Note 1 to Financial Statements.)

The provision for regulatory disallowances reflects a charge to comply with the PUC's decision in the Company's rate order. The decision, which the Company is appealing, included a prudence disallowance of $472 million with respect to certain Comanche Peak cost relating to 87.8% of the Company's ownership interest in both units of Comanche Peak. In addition, the decision provided for a disallowance of $909 million for costs associated with the Company's reacquisition of the remaining 12.2% minority ownership interest in Comanche Peak. (See Note 11 to Financial Statements.)

Other income and deductions-net decreased for the three- and six-month periods and increased for the twelve-month period due to changes in interest income on temporary cash investments.

Federal income taxes-other income decreased for the twelve-month period due to the effect of recording the taxes associated with the provision for regulatory disallowances. (See Notes 7 and 11 to Financial Statements.)

Total interest charges, excluding AFUDC, decreased 4.9% and 1.2% for the three- and six-month periods and increased 6.2% for the twelve-month period. Interest on mortgage bonds increased in all periods due to annualized interest on issues sold in prior periods, partially offset by retirements and redemptions of certain higher interest rate issues. Interest on other long-term debt decreased in all periods due to the continuing retirement of debt incurred on the purchase of the minority ownership interests in Comanche Peak. (See Note 6 to Financial Statements.) Other interest expense decreased for the three- and six-month periods due to interest related to the settlement of prior years' federal income tax returns in the previous periods and lower interest rates on short-term borrowings. The twelve-month period increase was due to interest associated with the PUC's order to refund disallowed fuel gas costs, interest associated with the settlement of prior year's federal income tax returns and increased interest on short-term borrowings.

The cumulative effect of recording unbilled revenue reflects the accounting change on January 1, 1992, by the Company to begin recording base rate revenue for energy sold but not billed. (See Note 14 to Financial Statements.)

Net income increased 5.5% and 16.6% for the three- and six-month periods. The change in accounting for unbilled revenue increased net income for the six-month period, and partially offset the net loss for the twelve-month period, by $121,496,000, of which $80,907,000 represents the cumulative effect of the change in accounting principle at January 1, 1992. The net loss for the twelve-month period was due to the recognition of the provision for regulatory disallowances and the provision for refunds and related interest described above and in Note 11 to Financial Statements. Another major factor affecting earnings for the twelve-month period was the discontinuation of the accrual of AFUDC on approximately $1.3 billion of investment in Comanche Peak Unit 1, incurred after the end of the test year, which is not provided for in current rates but which will be included in future rate increase requests.

Preferred stock dividends of the Company decreased in all periods due to a reduction in adjustable dividend rates.

Pending Accounting Changes

In December 1990, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", which is effective for fiscal years beginning after December 15, 1992. The Statement requires a change in the accounting for a company's obligation to provide health care and certain other benefits to its retirees from

Pending Accounting Changes — (concluded)

the "pay-as-you-go" method to an accrual method and requires the cost of the obligation to be recognized in the period from employment date until full eligibility for benefits. The Company expects that the accrual of benefits cost will either be recovered through future rates beginning after the commercial operation of Comanche Peak Unit 2, which is similar to the current treatment of retirement plan costs, or, pursuant to certain provisions of the Statement, that a regulatory asset will be recorded to reflect amounts, if any, whose future recovery is probable through rates as costs are paid. Therefore, this Statement is not expected to have a material effect on the Company's financial position or results of operations.

In February 1992, the FASB issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", which is effective for fiscal years beginning after December 15, 1992. The Statement, among other things, requires the liability method of recognition for all temporary differences, requires that deferred tax liabilities and assets be adjusted for an enacted change in tax laws or rates and prohibits net-of-tax accounting and reporting. Certain provisions of the Statement provide that regulated enterprises are permitted to recognize such adjustments as regulatory assets or liabilities if it is probable that such amounts will be recovered from or returned to customers in future rates. Although application of the Statement will increase both total assets and liabilities, these requirements are not expected to have a material effect on the Company's financial position or results of operations.

TEXAS UTILITIES ELECTRIC COMPANY

PART II. OTHER INFORMATION

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

By written consent dated May 15, 1992, the holder of all of the outstanding shares of common stock of the Company (i) re-elected all of the incumbent directors, (ii) approved an amendment to the Articles of Incorporation of the Company limiting the liability of the directors for monetary damages in certain circumstances, and (iii) approved a proposal, thereafter adopted as an amendment to the Bylaws of the Company, authorizing the Company to enter into certain indemnification arrangements with officers, directors, employees and agents.

Item 5. OTHER INFORMATION.

Comanche Peak Nuclear Generating Station

Reference is made herein to Note 10 to Financial Statements contained in Part I of this Report regarding the Comanche Peak Nuclear Generating Station.

Rate Increase

Reference is made herein to Note 11 to Financial Statements and Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part I of this Report regarding the Rate Increase.

Operations Review and Cost Reduction

Reference is made herein to Note 12 to Financial Statements and Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part I of this Report regarding an Operations Review and Cost Reduction effort.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits filed as a part of Part II are:

4(a) — Articles of Amendment to the Articles of Incorporation of the Company.

4(b) — Bylaws, as amended, of the Company.

15 — Letter from Deloitte & Touche as to unaudited interim financial information.

28(a) — Thirty-Sixth Supplemental Indenture, dated as of June 1, 1992, to the Company's Mortgage and Deed of Trust, dated as of December 1, 1983, between the Company and Irving Trust Company (now the Bank of New York), Trustee.

28(b) — Thirty-Seventh Supplemental Indenture, dated as of June 1, 1992, to the Company's Mortgage and Deed of Trust, dated as of December 1, 1983, between the Company and Irving Trust Company (now the Bank of New York), Trustee.

28(c) — Thirty-First Supplemental Indenture, dated as of June 1, 1992, to the Dallas Power & Light Company Mortgage and Deed of Trust, dated as of May 1, 1945, between Dallas Power & Light Company and Old Colony Trust Company, Trustee (The First National Bank of Boston, successor Trustee).

TEXAS UTILITIES ELECTRIC COMPANY

PART II. OTHER INFORMATION — (Concluded)

(b) Reports on Form 8-K filed since March 31, 1992, are as follows:

Date of Report	Item Reported
April 10, 1992	Item 7. FINANCIAL STATEMENTS AND EXHIBITS
June 17, 1992	Item 5. OTHER EVENTS Item 7. FINANCIAL STATEMENTS AND EXHIBITS
June 23, 1992	Item 7. FINANCIAL STATEMENTS AND EXHIBITS
August 7, 1992	Item 7. FINANCIAL STATEMENTS AND EXHIBITS

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TEXAS UTILITIES ELECTRIC COMPANY

By /s/ S. S. Swiger
S. S. Swiger
Vice President, Controller and
Principal Accounting Officer

Date: August 11, 1992

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

(X) [illegible] UANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the quarterly period ended April 26, 1992.

OR

(   ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from ________________ to ________________.
Commission file number 0-6643

UNITOG COMPANY
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

44-0529828
(I.R.S. Employer Identification No.)

101 W. 11th Street, Kansas City, MO
(Address of principal executive offices)

64105
(Zip Code)

(816) 474-7000
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

(1) Yes _X_ No ____

(2) Yes _X_ No ____

BEST COPY AVAILABLE

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

As of April 26, 1992, the registrant had 5,029,412 shares of common stock, par value $.01 per share, outstanding.

TOTAL OF SEQUENTIALLY NUMBERED PAGES 12
EXHIBIT INDEX [illegible] NUMBERED PAGE 10

INDEX

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(1) Condensed Consolidated Financial Statements (unaudited):

Condensed Consolidated Balance Sheets as of April 26, 1992 and January 26, 1992. 3

Condensed Consolidated Statements of Earnings for the Three months ended April 26, 1992 and April 28, 1991. 4

Condensed Consolidated Statements of Cash Flows for the Three Months ended April 26, 1992 and April 28, 1991. 5

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

UNITOG COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
April 26, 1992 and January 26, 1992

	April 26, 1992 (unaudited)	January 26, 1992
ASSETS		
Current assets:		
Cash and cash equivalents	$ 945,922	$ 167,761
Accounts receivable, less allowance for doubtful receivables of $632,800 and $467,100, respectively	16,371,315	14,742,386
Inventories (note 3)	14,903,311	13,875,738
Rental garments in service, net	19,808,330	15,932,977
Prepaid expenses	1,446,478	1,326,354
Total current assets	53,475,356	46,045,216
Property, plant and equipment, at cost	76,111,438	61,913,154
Less accumulated depreciation	24,420,773	23,226,237
Net property, plant and equipment	51,690,665	38,686,917
Other assets, net	16,738,601	6,149,439
Excess cost over net assets of business acquired, net of amortization	1,139,607	--
	$123,044,229	$ 90,881,572
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	$ 5,431,915	$ 2,746,112
Accounts payable	6,375,248	5,894,779
Accrued expenses	7,861,107	6,314,490
Income taxes payable	250,662	511,312
Deferred income taxes	5,037,022	4,250,522
Total current liabilities	24,955,954	19,717,215
Long-term debt, less current installments (note 5)	60,711,047	34,915,000
Other liabilities, noncurrent	167,453	179,706
Deferred income taxes, noncurrent	4,723,285	4,734,035
Stockholders' equity:		
Common stock of $.01 par value. Authorized 15,000,000 shares; issued 5,029,412 shares	50,294	50,294
Additional paid-in capital	17,383,765	17,383,765
Retained earnings	15,052,431	13,901,557
Total stockholders' equity	32,486,490	31,335,616
	$123,044,229	$ 90,881,572

See accompanying notes to consolidated financial statements.

UNITOG COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
Three months ended April 26, 1992 and April 28, 1991
(unaudited)

	April 26, 1992	April 28, 1991
Revenues:		
Rental operations	$ 25,127,910	$ 23,152,723
Direct sales	12,703,430	12,029,613
Total revenues	37,831,340	35,182,336
Cost of sales:		
Rental operations	12,831,285	12,345,963
Direct sales	6,917,118	6,607,485
Total cost of sales	19,748,403	18,953,448
Gross margin	18,082,937	16,228,888
Operating expenses:		
Rental operations	9,007,579	8,180,471
Direct sales	4,270,454	3,933,826
General and administrative	1,839,581	1,769,690
Total operating expenses	15,117,614	13,883,987
Operating income	2,965,323	2,344,901
Interest expense	998,023	1,045,245
Other expenses, net	16,426	18,213
Earnings before income taxes	1,950,874	1,281,443
Income taxes	800,000	521,000
Net earnings	$ 1,150,874	$ 760,443
Weighted average common and common equivalent shares outstanding	5,038,104	5,029,412
Net earnings per common share	$ .23	$ .15

See accompanying notes to consolidated financial statements.

UNITOG COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Three months ended April 26, 1992 and April 28, 1991
(unaudited)

	April 26, 1992	April 28, 1991
Cash flows from operating activities:		
Net earnings	$ 1,150,874	$ 760,443
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,746,575	1,578,334
Provision for deferred income taxes	775,750	(186,182)
Changes in assets and liabilities:		
Accounts receivable	(257,887)	350,301
Inventories	(1,027,573)	(239,792)
Rental garments in service	(438,092)	465,398
Prepaid expenses	(1,099)	147,483
Other noncurrent assets	27,164	(127,831)
Accounts payable	480,469	(1,377,755)
Accrued expenses	588,795	(68,137)
Income taxes payable	(260,650)	706,689
Net cash provided by operating activities	2,784,326	2,008,951
Cash flows from investing activities:		
Acquisition of rental operations	(29,380,657)	--
Purchase of property, plant and equipment	(1,126,969)	(1,620,313)
Net book value of equipment disposed	19,611	102,709
Net cash used by investing activities	(30,488,015)	(1,517,604)
Cash flows from financing activities:		
Increases in long-term debt	28,641,803	2,325,000
Repayments of long-term debt	(159,953)	(2,107,201)
Net cash provided (used) by financing activities	28,481,850	217,799
Net increase in cash and cash equivalents	778,161	709,146
Cash and cash equivalents at beginning of period	167,761	148,471
Cash and cash equivalents at end of period	$ 945,922	$ 857,617
Supplemental disclosures of cash flow information:		
Cash paid during the three months ended April 26, 1992 and April 28, 1991 for:		
Interest	$ 846,000	$ 971,000
Income taxes	$ 285,000	$ 500

See accompanying notes to consolidated financial statements.

UNITOG COMPANY AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
Three Months Ended April 26, 1992 and April 28, 1991

Note 1

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position of the Company as of April 26, 1992, and the results of its operations and its cash flows for the three months ended April 26, 1992 and April 28, 1991.

Note 2

The results of operations for the three months ended April 26, 1992 are not necessarily indicative of the results to be expected for the full year.

Note 3 Inventories

The following is a summary of inventories at April 26, 1992 and January 26, 1992:

	April 26, 1992	January 26, 1992
Raw materials	$ 3,865,603	$ 3,715,638
Work in progress	2,321,568	2,225,815
Finished goods	11,879,636	10,981,250
	18,066,807	16,922,703
Less LIFO allowance	3,163,496	3,046,965
	$ 14,903,311	$ 13,875,738

Note 4 Acquisition of Rental Operations

On March 27, 1992, Unitog Rental Services, Inc., a wholly-owned subsidiary of Unitog Company, acquired substantially all of the assets and operations of Mid West Services, Inc., and Hertz and Hertz L.P., (Mid West). Mid West has three production plants and four branches which provide uniform and linen rental service to a large portion of Indiana and Ohio.

The acquisition was accounted for as a purchase and, accordingly, the purchase price was allocated to the assets acquired based upon their respective fair values. The total purchase price of Mid West and allocation of that purchase price is summarized as follows (in thousands):

Total purchase price		$ 30,021
Current assets	$ 4,931	
Property, plant and equipment	13,198	
Intangible and other assets	11,067	
Fair value of assets acquired	29,196	
Liabilities assumed	(318)	
Net assets acquired		28,878
Excess of purchase price over net assets acquired		$ 1,143

The excess of purchase price over net assets acquired is being amortized over 20 years. Other intangible assets acquired, consisting principally of noncompetition agreements and customer contracts, are being amortized over their respective useful lives of less than ten years. The operating results of Mid West have been included in the consolidated results of the Company since the date of acquisition.

The consolidated operating results of the Company for the quarters ended April 26, 1992 and April 28, 1991 on a pro forma basis as though the acquisition had occurred on January 28, 1991 would be approximately as follows (in thousands):

	April 26, 1992	April 28, 1991
Revenues	$ 41,122	$ 40,104
Operating income	3,034	2,448
Net earnings	1,027	482
Net earnings per common share	$ .20	$ .10

Note 5 Long-term Debt

In March 1992 the Company amended its loan and letter of credit agreement which governs the Revolving Credit Loan and Equipment Loan. The amended agreement, among other things, provides for the participation of an additional lending bank, increases total borrowings available under the credit facility and revises the principal repayment schedule of the Equipment Loan.

The Revolving Credit Loan provides for borrowings of up to $30 million at an interest rate based upon prime or, at the Company's option, an interest rate based upon the prevailing LIBOR rate. The interest rate in effect at April 26, 1992 was 6.5%. The Revolving Credit Loan matures on December 1, 1994.

The Equipment Loan provides for borrowings of approximately $34 million at prime plus a variable rate or, at the Company's option, an interest rate based upon the prevailing LIBOR rate. The interest rate in effect at April 26, 1992 was 6.75%. The Equipment Loan provides for quarterly principal payments varying in amount from $1 million to $1.5 million and monthly interest payments based upon the outstanding principal balance with any remaining balance and accrued interest due on December 1, 1994.

The Agreement restricts, among other things, capital expenditures, the payment of dividends and additional borrowings. The Agreement requires the Company to maintain certain minimum levels of working capital, net worth, interest coverage and fixed charge coverage and sets a maximum defined leverage ratio.

Note 6 Stock Option Plan

In May 1992, the stockholders of the Company approved the Unitog Company 1992 Stock Option Plan. The Plan provides for the discretionary granting of up to 150,000 shares of the Company's common stock to selected employees at an exercise price of not less than the fair market value of the Company's common stock on the date of grant. At April 26, 1992, 107,000 options were outstanding under the plan at an exercise price of $16.25 per share, 43,000 options were available for grant, and no options were exercisable. The options vest ratably over four years and expire in 2002.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

In March 1992 the Company acquired the assets and operations of Mid West Services, Inc. for $30 million. The purchase was financed with bank borrowings. The Company amended its previous bank credit agreement to increase its credit facility by $20 million. At April 26, 1992 the blended interest rate for the Company's long term debt was 7.5% and the amount of additional borrowings available under the amended bank credit agreement was $14 million.

Cash provided by operating activities for the three months ended April 26, 1992 was $2.8 million, an increase of $776,000 or 39% over the comparable period last year. Improved net earnings and cash flow related to the former Mid West operations offset inventory increases for Direct Sales' product demand.

Working capital was $28.5 million at April 26, 1992 compared to $26.2 million at January 26, 1992. The increase is due to higher inventory levels and the addition of net current assets from the former Mid West operations. Capital expenditures were $1.1 million compared to $1.6 million last year. Planned capital expenditures for fiscal 1993 are $7 million.

Management believes that cash generated from operations and its bank credit facility will be sufficient to meet its cash requirements for acquisitions and capital expenditures in the foreseeable future.

Results of Operations

Revenues for the first quarter of fiscal 1993 were $37.8 million, an increase of $2.7 million or 8% over the comparable period last year. Rental revenues for the quarter ended April 26, 1992 were $25.1 million, an increase of $2 million or 9% over the prior year. Revenues from the former Mid West operations were $1.5 million for the four weeks since acquisition. Direct Sales for the first quarter of fiscal 1993 were $12.7 million, and increase of $673,000 or 6% over last year. Sales of postal service uniforms continued at a record breaking pace for this product line. Sales of other uniform products were less than anticipated. At quarter's end, however, unshipped orders for these products were at record levels.

Operating income for the first quarter of fiscal 1992 was $3.0 million, an increase of $620,000 or 26% over the comparable period last year. The improvement was the result of cost reductions from the Company's restructuring efforts. Decreased garment consumption costs and increased manufacturing production volume also contributed to the improvement.

Interest expense for the first quarter of fiscal 1993 was $1 million, a decrease of $47,000. The effect of lower average interest rates has been partially offset by increased debt service related to the bank financing to acquire the former Mid West operations.

Net earnings for the first quarter were $1.2 million or $ .23 per share, an increase of $390,000 or $ .08 per share over the comparable period last year. The former Mid West operations did breakeven for the four weeks since acquisition. The net earnings' improvement was attributable to the maturing cost savings from the Company's restructuring efforts.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See the discussion of legal proceedings in Part I, Item 3 of the Company's Annual Report on Form 10-K for the fiscal year ended January 26, 1992.

Item 4. Submission of Matters to a Vote of Security Holders

At the Company's Annual Meeting of Stockholders held on May 21, 1992 the stockholders approved the Unitog Company 1992 Stock Option Plan. Under the Stock Option Plan key employees of the Company are eligible to receive incentive and/or non-qualified stock options. A total of 150,000 shares of common stock are available for issuance under the Stock Option Plan. The exercise price for options granted under the Stock Option Plan may not be less than the fair market value of the Company's common stock at the date of grant and are exercisable for up to ten years after the date of grant. At the Annual Meeting, a total of 4,109,229 shares voted for, 73,057 shares voted against and 11.356 shares abstained from approval of the Stock Option Plan.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

4 (a) Specimen common stock certificate (incorporated by reference to Exhibit 4(a) to Amendment No. 1 to Registration Statement on Form S-1 (SEC No. 33-27969)).

4 (b) Reference is made to the Fourth Article of the Second Restated Certificate of Incorporation (incorporated by reference to Exhibit 3(a) to Amendment No. 2 to Registration Statement on Form S-1 (SEC No. 33-27969)) and Sections 9, 47, 48, 49 and 50 of the Third Amended and Restated Bylaws, as amended (incorporated by reference to Exhibit 3(b) to Annual Report on Form 10-K for the fiscal year ended January 28, 1990).

4 (c) First Amended and Restated Loan and Letter of Credit Reimbursement Agreement, dated October 25, 1990, among the registrant, Unitog Rental Services, Inc., Bank One, Indianapolis, National Association ("Bank One"), Harris Trust and Savings Bank ("Harris") and Bank One, as agent, including copies of promissory notes issued thereunder (incorporated by reference to Exhibit 4 of Quarterly Report on Form 10-Q for the quarterly period ended October 28, 1990).

4 (d) Amendment No. 1 to First Amended and Restated Loan and Letter of Credit Reimbursement Agreement, dated January 25, 1991, among the registrant, Unitog Rental Services, Inc., Bank One, Harris and Bank One, as agent. (incorporated by reference to Exhibit 4(d) to Annual Report on Form 10-K for the fiscal year ended January 27, 1991).

4 (e) Amendment No. 2 to First Amended and Restated Loan and Letter of Credit Reimbursement Agreement, dated March 22, 1991, among the registrant, Unitog Rental Services, Inc., Bank One, Harris and Bank One, as agent (incorporated by reference to Exhibit 4(e) to Annual Report on Form 10-K for the fiscal year ended January 27, 1991).

4 (f) Amendment No. 3 to First Amended and Restated Loan and Letter of Credit Reimbursement Agreement, dated as of March 13, 1992, among the registrant, Unitog Rental Services, Inc., Bank One, Harris and Boatmen's First National Bank of Kansas City and Bank One, as agent, including promissory notes issued thereunder (incorporated by reference to Exhibit 4(f) to Annual Report on Form 10-K for the fiscal year ended January 26, 1992).

4 (g) Trust Indenture, dated as of December 7, 1988, between the registrant, Unitog Rental Service, Inc., jointly and severally, and Peoples Bank and Trust Company, including specimen copy of note (incorporated by reference to Exhibit 4(h) to Registration Statement on Form S-1 (SEC No. 33-27969)).

4 (h) Undertaking to file certain instruments defining the rights of holders of certain long term debt pursuant to Item 601 of Regulation S-K (incorporated by reference to Exhibit 4(h) to Annual Report on Form 10-K for the fiscal year ended January 26, 1992.

(b) Reports on Form 8-K.

On April 7, 1992, the Company filed a Report on Form 8-K with respect to the acquisition of the assets and operations of Mid West Services, Inc. and Hertz & Hertz, L.P. The Form 8-K was amended under cover of Form 8, filed on May 19, 1992. The items reported on the Form 8-K were Item 2, Acquisition of Assets, and Item 7, Financial Statements and Exhibits. The item reported on the Form 8 was Item 7, Financial Statements and Exhibits.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITOG COMPANY

Dated: June 4, 1992

By:

J. Craig Peterson
Senior Vice-President of
Finance and Administration,
Chief Financial Officer
(Duly Authorized Officer)

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended March 31, 1992

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to ______________.

Commission file number 0-16117

UNSI CORPORATION
(Exact name of registrant as specified in charter)

Delaware
(State of Incorporation)

22-2661940
(I.R.S. Employer Identification No)

c/o Forstmann-Leff Associates, Inc.
55 East 52nd Street, New York, New York
(Address of Principal Executive Offices)

10055
(Zip Code)

(212) 407-9450
(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No _____

APPLICABLE ONLY TO CORPORATE ISSUERS

As of March 31, 1992 the number of shares outstanding of the registrant's Common Stock was 1,810,000.

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UNSI CORPORATION

BALANCE SHEET

ASSETS

	March 31, 1992 (Unaudited)	June 30, 1991
Current Assets		
Cash and cash equivalents	$ 594,785	$ 634,767
Total Assets	$ 594,785	$ 634,767

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 1992 (Unaudited)	June 30, 1991
Current Liabilities		
Accrued expenses	$ 8,776	$ 26,333
Preferred stock dividend payable	6,500	-
	15,276	26,333
Stockholders' Equity		
Preferred stock, par value $.01 per share; 1,000,000 shares authorized, 20,000 shares issued and outstanding	200	200
Capital in excess of par	199,800	199,800
Common stock, par value $.01 per share; 10,000,000 shares authorized; 1,810,000 shares issued and outstanding	18,100	18,100
Capital in excess of par	2,440,063	2,440,063
Accumulated deficit	(2,078,654)	(2,049,729)
Total Stockholders' Equity	579,509	608,434
	$ 594,785	$ 634,767

UNITED SERVICE SOURCE, INC.

STATFMENTS OF OPERATIONS

(Unaudited)

	Nine Months Ended March 31,		Three Months Ended March 31,	
	1992	1991	1992	1991
Revenue From Continuing Operations				
Interest income	$ 29,689	$ 32,647	$ 5,229	$ 7,532
Administrative expenses	52,114	18,000	4,503	6,000
Income (loss) from continuing operations	(22,425)	14,647	726	1,532
Discontinued Operations				
(Loss) from operations of discontinued business	-	(13,819)	-	-
Income (Loss) on disposal of discontinued business, including provision of $9,958 for operating losses during phase out period	-	(364,469)	-	1,685
	-	(378,288)	-	1,685
Net (Loss)	$(22,425)	$(363,641)	$ 726	$ 3,217
Earnings (Loss) Per Share				
Continuing operations	$(.01)	$ .01	$ -	$ -
Discontinued operations	-	(.17)	-	-
Net (Loss)	$(.01)	$(.16)	$ -	$ -
Weighted average number of shares of common stock outstanding	1,810,000	2,300,000	1,810,000	2,300,000

UNSI CORPORATION

STATEMENT OF CASH FLOWS
NINE MONTHS ENDED MARCH 31, 1991
(Unaudited)

Increase (decrease) in cash and cash equivalents

	1991
Cash Flows From Operating Activities	
Net loss	$(363,641)
Loss on disposal of discontinued business - non cash	360,586
	(3,055)
Adjustments to reconcile net loss to net cash provided from (used in) operating activities:	
Depreciation	28,000
Provision for doubtful accounts	-
Decrease in accounts receivable	128,258
Increase in prepaid expenses	(25,366)
Decrease in other assets	-
Decrease in accounts payable	(100,182)
Decrease in accrued payroll and related expenses	(8,939)
	21,771
Net cash provided from (used in) operating activities	18,716
Cash Flows From Investing Activities	
Additions to property and equipment	(39,376)
Cash reduction on disposal of business	(121,265)
Net cash used in investing activities	(160,641)
Net increase (decrease) in cash and cash equivalents	(141,925)
Cash and cash equivalents, July 1	648,000
Cash and cash equivalents, March 31	$ 506,075

See Notes to Financial Statements

UNSI CORPORATION
STATEMENT OF CASH FLOWS
NINE MONTHS ENDED MARCH 31, 1992
(Unaudited)

Increase (decrease) in cash and cash equivalents

	1992
Cash Flows From Operating Activities	
Net loss	$ (22,425)
Adjustments to reconcile net loss to net cash used in operating activities:	
Decrease in accrued expenses	(17,557)
Total adjustments	(17,557)
Net cash used in operating activities	(39,982)
Cash Flows From Investing Activities	
Additions to note receivable	(500,000)
Repayment of note receivable	500,000
Net cash used in investing activities	-0-
Net (decrease) in cash and cash equivalents	(39,982)
Cash and cash equivalents, July 1, 1991	634,767
Cash and cash equivalents, March 31, 1992	$ 594,785

UNSI CORPORATION

NOTES TO FINANCIAL STATEMENTS (Unaudited)

March 31, 1992

Note A - Basis of Presentation.

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with Regulation S-X and the instructions to Form 10-Q. These statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended June 30, 1991, and to Note B below.

Note B - Sale of Assets.

On May 14, 1991, the Company's stockholders approved the Asset Purchase Agreement dated as of October 31, 1990 pursuant to which the Company sold substantially all of the operating assets related to its satellite earth station operations (except for approximately $500,000 cash) to a corporation (the "Purchaser") wholly owned by two former officers of the Company. The Purchaser assumed all of the Company's liabilities except for expenses incurred in connection with the sale and legal and accounting services rendered subsequent to October 31, 1990.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of operations

Three and Nine Months Ended March 31, 1992 and 1991

During the three and nine months ended March 31, 1992, revenues from continuing operations were $5,229 and $29,689, respectively. During the corresponding periods in the prior year, revenues from continuing operations were $7,532 and $32,647, respectively. Revenues from continuing operations for the period ended March 31, 1992 consist of interest income derived from the investment of Company funds remaining after the sale of assets. See Note B of Notes to Condensed Financial Statements.

During the three and nine months ended March 31, 1992, the Company had income (loss) from continuing operations (i.e., the Company's interest income less the amount for administrative expenses as allocated by management), of $(726) and $(22,425), respectively. Income (loss) from continuing operations in the corresponding periods in the prior year were $1,532 and $14,647, respectively. The loss for the nine month period ended March 31, 1992 is principally attributable to expenses incurred in connection with a proposed merger that was abandoned.

Liquidity and Capital Resources

As of March 31, 1992, the Company had working capital of approximately $580,000. However, beginning July 1, 1992, the holders of 20,000 shares of preferred stock have the right to have some or all of such shares redeemed for $10 per share (an aggregate of $200,000) plus accrued dividends. Such redemption would substantially deplete the Company's assets and working capital. The Company currently engages in no operating activities other than the investment of its cash and the search for possible merger or acquisition or other business opportunities. Accordingly, the Company's expenditures consist primarily of legal and accounting fees. The Company's working capital is sufficient to meet its present and anticipated near term operating needs.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

UNSI CORPORATION

By:________________________________
Peter Lusk, Chairman of the Board
(Principal Executive Officer and
Principal Financial and Accounting
Officer)

Dated: May 13, 1992
New York, New York

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Page 1 of 11

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended April 30, 1992

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 0-16566

VARITRONIC SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

LR

PROCESSED BY
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JUN 12 1992
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Q-Data Corp. - St. Petersburg, FL

Minnesota (State or other jurisdiction of incorporation or organization)	41-1442400 (I.R.S. Employer Identification No.)

300 Interchange North
300 Highway 169 South
Minneapolis, Minnesota
(Address of principal executive offices)

55426
(Zip Code)

612-542-1500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

BEST COPY AVAILABLE

On June 10, 1992, there were 3,049,227 shares of the registrant's $.01 par value common stock outstanding.

PART I - FINANCIAL INFORMATION
Item 1; Financial statements

VARITRONIC SYSTEMS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS
ASSETS

	(UNAUDITED) APRIL 30, 1992	JULY 31, 1991
Current assets:		
Cash and cash equivalents	$ 788,191	$ 3,244,330
Accounts receivable, net	7,979,075	7,508,175
Inventories:		
Finished goods	6,389,937	6,665,462
Raw materials and component parts	4,043,248	4,610,785
Total inventories	10,433,185	11,276,247
Other current assets	1,234,618	1,129,769
Total current assets	20,435,069	23,158,521
Property and equipment, net	2,292,317	1,671,947
Other assets	327,026	525,006
Total assets	$23,054,412	$25,355,474

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 2,096,377	$ 1,844,725
Accrued liabilities	811,576	1,016,841
Total current liabilities	2,907,953	2,861,566
Stockholders' equity:		
Common stock, $.01 par value, 10,000,000 shares authorized; 3,143,427 and 3,679,159 shares issued and outstanding	31,434	36,792
Additional paid-in capital	575,084	4,292,522
Retained earnings	19,539,941	18,164,594
Total stockholders' equity	20,146,459	22,493,908
Total liabilities and stockholders' equity	$23,054,412	$25,355,474

See accompanying notes to unaudited consolidated condensed financial statements

VARITRONIC SYSTEMS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED APRIL 30,		NINE MONTHS ENDED APRIL 30,	
	1992	1991	1992	1991
Net sales	$9,487,836	$10,261,921	$27,190,798	$30,034,265
Cost of sales	5,441,015	5,470,677	15,357,940	16,041,521
Gross profit	4,046,821	4,791,244	11,832,858	13,992,744
Operating expenses:				
Marketing and sales	1,521,112	1,620,843	4,590,425	4,828,671
General and administrative	1,533,818	1,539,498	4,348,931	4,632,710
Research and development	423,237	233,165	1,066,154	623,823
Total operating expenses	3,478,167	3,393,506	10,005,510	10,085,204
Income from operations	568,654	1,397,738	1,827,348	3,907,540
Other income	16.047	23,623	260,346	154,445
Interest expense	(691)	(39,658)	(2,347)	(41,656)
Income before income taxes	584,010	1,381,703	2,085,347	4,020,329
Provision for income taxes	200,000	500,000	710,000	1,475,000
Net income	$ 384,010	$ 881,703	$ 1,375,347	$ 2,545,329
Net income per share	$.12	$.24	$.40	$.70
Weighted average shares outstanding	3,256,000	3,650,000	3,453,000	3,645,000

See accompanying notes to unaudited consolidated condensed financial statements

VARITRONIC SYSTEMS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDED APRIL 30,	
	1992	1991
Operating activities:		
Net income	$ 1,375,347	$ 2,545,329
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	726,971	887,894
Provision for inventory valuation allowance	100,000	125,000
Provision for uncollectible accounts receivable	(3,518)	6,811
Other	170,000	(3,609)
Changes in operating assets and liabilities:		
Accounts receivable	(467,382)	(1,299,527)
Inventories	743,062	(2,072,936)
Other current assets	(104,849)	(273,875)
Accounts payable	251,652	287,462
Accrued liabilities	(205,265)	(224,574)
Net cash provided (used) by operating activities	2,586,018	(22,025)
Investing activities:		
Additions to property and equipment	(1,242,206)	(379,111)
Other	(77,155)	(163,860)
Net cash used by investing activities	(1,319,361)	(542,971)
Financing activities:		
Repurchase of common stock	(4,020,406)	-
Proceeds from sale of common stock under incentive stock option plan and employee stock purchase plan	297,610	96,682
Net cash (used) provided by financing activities	(3,722,796)	96,682
Net decrease in cash and cash equivalents	(2,456,139)	(468,314)
Cash and cash equivalents at beginning of period	3,244,330	2,190,460
Cash and cash equivalents at end of period	$ 788,191	$ 1,722,146

See accompanying notes to unaudited consolidated condensed financial statements

VARITRONIC SYSTEMS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. Consolidated Condensed Financial Statements:

The unaudited consolidated condensed financial statements as of April 30, 1992, and for the three and nine months then ended, reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position and results of operations for the interim periods. The unaudited consolidated condensed interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's report on Form 10-K for the year ended July 31, 1991.

2. Common Stock Repurchase:

During the nine months ended April 30, 1992, the Company repurchased 596,287 shares of its common stock at prices ranging from $5.56 to $7.81 per share. No shares were repurchased by the Company during the nine months ended April 30, 1991.

3. Sale of Insignia Systems, Inc. Common Shares:

In January 1992, the Company sold 49,915 shares of Insignia Systems, Inc. (Insignia) common stock, reducing its holding to 184,011 shares. The investment in Insignia common shares was recorded in the financial statements at a zero cost basis. The net proceeds of $187,177 on the sale of these shares was included in other income. No Insignia common shares were sold during the quarter ended April 30, 1992.

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS:

Net sales of $9,488,000 for the third quarter of fiscal 1992 reflect a decrease of $774,000 or 7.5% from net sales of $10,262,000 in the comparable period in the prior year, primarily due to a decrease of $719,000 in international sales. International sales decreased by 21.3% from the third quarter of last year, with decreases recorded in sales of machines, consumable supplies and accessory products. International sales in total were 27.9% of net sales in the current period compared to 32.8% in the prior year. Several factors adversely affected international sales including a reorganization of the European distribution network, increased competition and softness in the economy. Domestic sales decreased by less than 1% from the year ago period. Machine sales decreased by 19.3% from the third quarter of fiscal 1991. The current offering of machines carry a lower suggested retail price than that of a year ago. The Company introduced the Accent™, a portable labeling system, in the current quarter. The Accent has a suggested retail price of $995 which is significantly lower than the suggested retail prices of the Company's other lettering machines. The Accent is distributed by the Company's independent dealers and three new private label distributors. Sales of Accent machines, consumable supplies and accessory products accounted for approximately 10% of current quarter net sales. Sales of consumable supplies decreased by 4.0% from last year's third quarter and represented 69.7% of current period net sales compared to 67.1% in the same period last year. Sales of accessory products were approximately 6% of net sales for both quarters.

Net sales for the nine months ended April 30, 1992, were $27,191,000 which compares to net sales of $30,034,000 for the nine months ended April 30, 1991. The decrease in nine month sales is principally due to a decline in international sales, which is consistent with the third quarter comparisons. Current period international sales decreased by 26.5% from the nine months ended April 30, 1991. International sales comprised 25.9% of current year-to-date sales compared to 31.9% in the year ago period. Domestic sales decreased by 1.5% from the nine months ended April 30, 1991. Machine sales in total represented 27.4% of total net sales during the current nine-month period compared to 29.6% last year, while sales of consumable supplies increased to 66.1% of net sales in the current period versus 64.2% in last year's nine-month period ended April 30.

RESULTS OF OPERATIONS (continued):

Gross margin decreased from 46.7% and 46.6% for the third quarter and nine months ended April 30, 1991, to 42.7% and 43.5% for comparable periods in the current year. The decrease in the current quarter margin compared to the third quarter of last year resulted from several factors. The Company charged $302,000 to operations for excess inventories in the current year third quarter, compared to $77,000 in the year ago period, and $508,000 in the current nine-month period compared to $314,000 in the year ago period. In addition, overall margins on consumable supply sales decreased, as the supply sales mix shifted away from the more mature, higher margin Merlin and Merlin Express supplies to other supply products which carry lower margins. Finally, the Company has increased its aggressive pricing discounts on certain of its machines.

Operating expenses for the third quarter of fiscal 1992 increased by $85,000 from the third quarter of fiscal 1991. Marketing and sales expenses decreased by $100,000 compared to the third quarter in fiscal 1991. Promotional expenses decreased by over $300,000 in the current year third quarter due to revisions in product promotions and decreases in sales incentives costs which are directly related to sales volume. Increases in media and direct mail advertising, and other advertising program costs partially offset the decrease in promotional expenses. Research and development expenses increased by $190,000 compared to the third quarter of fiscal 1991 due to increased spending for new product development.

Operating expenses for the nine months ended April 30, 1992, were $10,006,000, a decrease of $79,000 from the comparable period in fiscal 1991. Marketing and sales expenses decreased by $238,000 for the nine months ended April 30, 1992, compared to the same period in fiscal 1991. Promotional expenses decreased by almost $550,000 between the comparable periods for the reasons noted above. The decrease in promotional expenses was partly offset by a $187,000 increase in media and direct mail advertising, and other advertising program costs. General and administrative costs decreased by $284,000 during the nine months ended April 30, 1992, compared to the nine months ended April 30, 1991. Research and development costs increased by $442,000 between the same periods due to increased research activity for new product development and a change in classification of certain costs from general and administrative to research and development expense. These costs are principally labor related and reflect a change in the functional responsibility of a number of employees.

RESULTS OF OPERATIONS (continued):

Other income for the nine months ended April 30, 1992, included a gain of $187,000 realized on the sale of 49,915 shares of Insignia Systems, Inc. common stock in January 1992. The shares were included in the financial statements at a zero cost basis. The remaining balance of other income is interest income for all periods presented.

The Company provided for income taxes at a 34.2% and 34.1% rate for the current quarter and nine months compared to an effective tax rate of 36.4% for fiscal 1991. The effective tax rate decrease is due to the current period tax deductibility of the basis in Insignia Systems, Inc. shares sold. This basis was previously treated as a non-deductible capital loss for financial reporting in fiscal 1990.

LIQUIDITY AND CAPITAL RESOURCES:

Cash and cash equivalents at April 30, 1992, totaled $788,000, a decrease of $2,456,000 from July 31, 1991. Cash provided by operations for the nine months ended April 30, 1992, was $2,586,000 which compares to cash used by operations of $22,000 for the comparable period in fiscal 1991. The most significant use of cash during the current nine-month period was the repurchase of 596,000 of the Company's common shares at a total cost of $4,020,000.

The Company maintains a $10,000,000 line of credit with a bank in Minneapolis. As of April 30, 1992, and for the nine months then ended, the Company had no outstanding borrowings under this line of credit.

The Company expects that it will continue to finance its working capital and capital expenditure needs for the foreseeable future from present cash balances, internally generated funds and its bank line of credit.

DISTRIBUTION RIGHTS:

The Company distributes the PosterPrinter and PosterPrinter Plus on an exclusive basis in certain countries under distribution agreements with C. Itoh and Co., Ltd. (C. Itoh), a Japanese trading company. C. Itoh is the Company's sole supplier of these machines and related paper supplies. The Company can maintain exclusive distribution rights under these contracts by meeting certain minimum machine unit order requirements. The Company has met all minimum order requirements under the contract governing exclusive distribution rights of the PosterPrinter Plus in North America. The Company has not met the minimum order requirements for the PosterPrinter under the contract for exclusive European distribution. Although technically in default, the Company does not expect to lose its exclusive European distribution rights and is negotiating a revised contract for European distribution. Certain market conditions in Europe at the effective date of the current contract have had a negative effect on the Company's ability to successfully launch this product. C. Itoh is aware of these market restraints and has not notified the Company of its intent to terminate exclusive distribution rights under this contract. To date, sales under the European distribution agreement have not been material.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits: None

(b) Reports on Form 8-K: No reports on Form 8-K have been filed during the quarter.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: June 10, 1992

VARITRONIC SYSTEMS, INC.

Norbert F. Nicpon
Vice President of Finance and
Administration and Chief
Financial Officer